ProfitableINVESTINGTips
Stock Market Investing Tips, Techniques, and Resources

How Do Dark Pools Hurt Investors?

A relatively recent addition to the world of equities is the dark pool. These are trading networks that let traders buy or sell large orders and complete the orders before the market in general is aware of the trade. This works out well for those who wish to enter offers to buy or sell large blocks of stock without immediately changing the market. So, how to dark pools hurt investors? Dark pools fragment the market. Imagine that you want to buy or sell a house and need to know the prices at which comparable houses have been selling in your area. You find out that everything to the North, West and South of you is a *dark pool* of real estate. You have no idea what prices are being paid for homes and may end up paying way too much or selling your house for far too little. How do dark pools hurt investors? They result in an inefficient market and encourage dishonesty. We wrote recently about **three ways to profit from stock market inefficiency**. The bottom line is that you need accurate information which is what dark pools tend to deny you.

Seeing the Future in the Present

Stock investors use **fundamental analysis** to decide if a stock is priced too high, too low or fairly. If they are wise they also use statistically based analysis to determine the sentiment of the market. Although the fundamentals are what eventually will set the price of a stock it is the composite of opinions of stock traders and investors that drives prices in the short term. In the days of the Samurai in Japan rice traders learned that simply following price patterns on a daily basis gave one a good idea as to where prices were headed next. In this case the immediate past and the present predict the future. When a large portion of trades are taking place in dark pools it reduces the accuracy of this process of analysis. How do dark pools hurt investors? They hide necessary information that an investor would use to execute a timely purchase of sale or a stock.

First in Line or Last in Line

A single set of trades can cause huge changes in the price of a given stock. Let us use an old example from the 1980s. Xerox had suffered losses and was making a comeback. An investor group was trying to take over the company. They were leveraged to the hilt in their margin accounts when the price fell slightly. The next thing they knew they were getting margin calls on their accounts and had to sell their stock in Xerox. Within a very few trades the stock fell from $60 a share to $30 a share. Anyone who wanted to get out could see what

was happening and place an order to sell. Anyone who realized that the stock would probably be back at $60 a share could buy at the low point. But, if dark pools had existed at that time it is quite possible that much of the trading activity would have transpired in the dark as brokerages routed all orders through their dark pool before showing them to the investing public in general. How do dark pools hurt investors? Investors prefer liquidity and are often hurt by illiquid markets where the trades are stacked against them. **Under priced stocks** are what investors commonly want to buy. But with dark pools they have to stand in line and watch their opportunity vanish as someone else is allowed to buy or sell before they get a chance.

Educational Resources

Click the links below to get your FREE training materials.

Free Weekly Investing Webinars

Don't miss these free training events!

http://www.profitableinvestingtips.com/free-webinar

Forex Conspiracy Report

Read every word of this report!

http://www.forexconspiracyreport.com

Get 12 Free Japanese Candlestick Videos

Includes training for all 12 major candlestick signals.

http://www.candlestickforums.com

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.