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Market Structure EDGE

Finding Winning Entries and Exits in Stocks

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As with all investments, your capital is at risk

Finding Winning Entries and Exits in Stocks

**Tim Quast, founder and CEO of
Market Structure EDGE
Jan 11, 2024**

- **Tim Quast – founder of two market structure analytics firms**
- **ModernIR.com – Market leader, quantitative equity Market Structure Analytics for US issuers**
- **Market Structure EDGE – Only quantitative Supply and Demand data for traders**



*It's very hard for investors to outperform
the broad measures.*

**There's a reason. Rules and mechanics
favor average prices.**

We want Alpha as investors. Rules promote Beta.

Reg NMS requires
stocks to trade
between the best Bid
and Offer

- The
Average



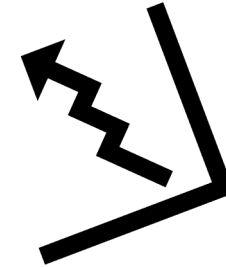
Passive Investment
tries to track averages,
which is the price
between the Bid and
the Offer

- The
Average



A few big brokers
execute trades and are
fined if they aren't
consistently between
the Bid and Offer

- The
Average



Stock-pickers
seek **OUTLIERS**,
but if stocks
rise, diverge
from broad
measures,
indexes sell.

Tracking the Mean



Source: ModernIR.com

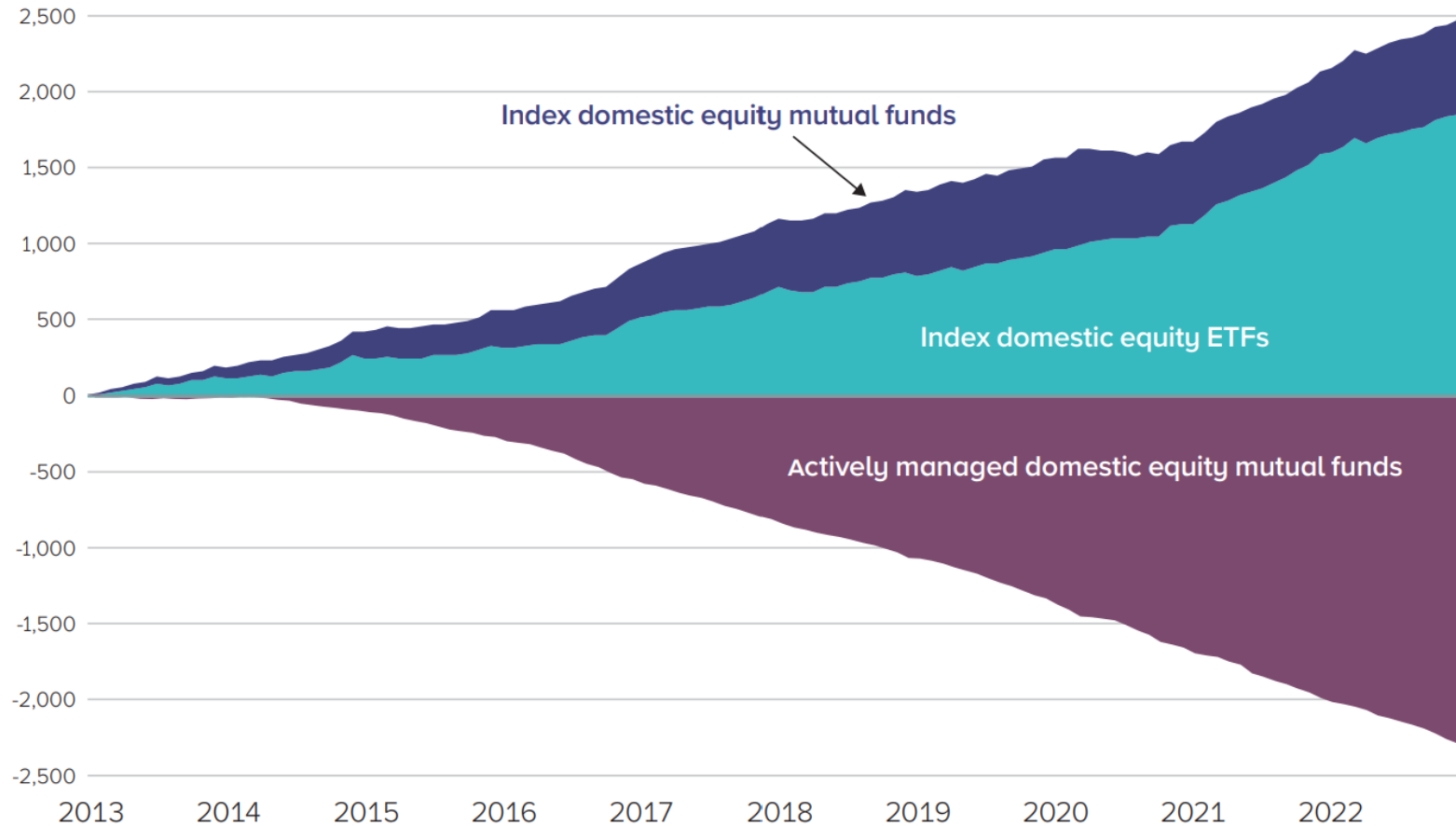
Understand what *The Money* is doing. It's not picking stocks.

Source: Investment Company Institute 2023 Factbook

FIGURE 3.10

Some of the Outflows from Domestic Equity Mutual Funds Have Gone to ETFs

Cumulative flows to domestic equity mutual funds and net share issuance of index domestic equity ETFs, billions of dollars, monthly



Note: Mutual fund data include net new cash flow and reinvested dividends; ETF data for net share issuance include reinvested dividends.

“85-93% of Active managers the past 20 years didn’t beat the benchmark. Sixty percent of the market is now ETFs, 80% of volume is in the S&P 500. Five growth stocks are 25-30% of the index. There is no alpha left in public equities.”

Marc Rowan, CEO and co-founder, Apollo Management Group, Economic Club of New York, interview with CNBC’s Andrew Ross Sorkin, June 7, 2023

**Ah, but there is alpha!
Winning entries and
exits. We'll get to it.
First, let's learn a couple
more things.**

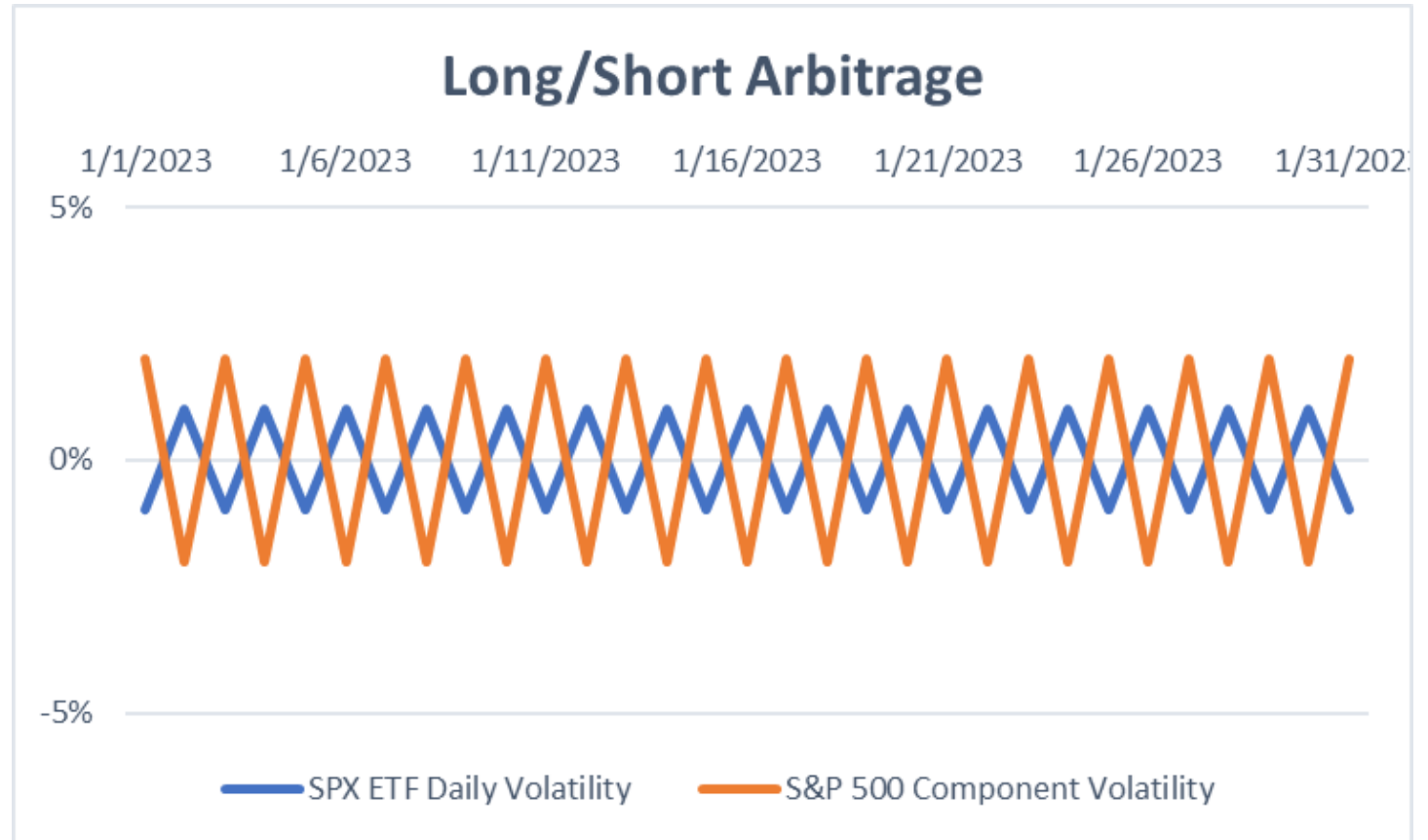


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Suppose You Could Arbitrage the Market.

Arbitrage: trading the same things at different prices.

You buy a basket of S&P stocks, and short the ETF tracking it. Reverse the trade every day. Or every few seconds? Or every few milliseconds?



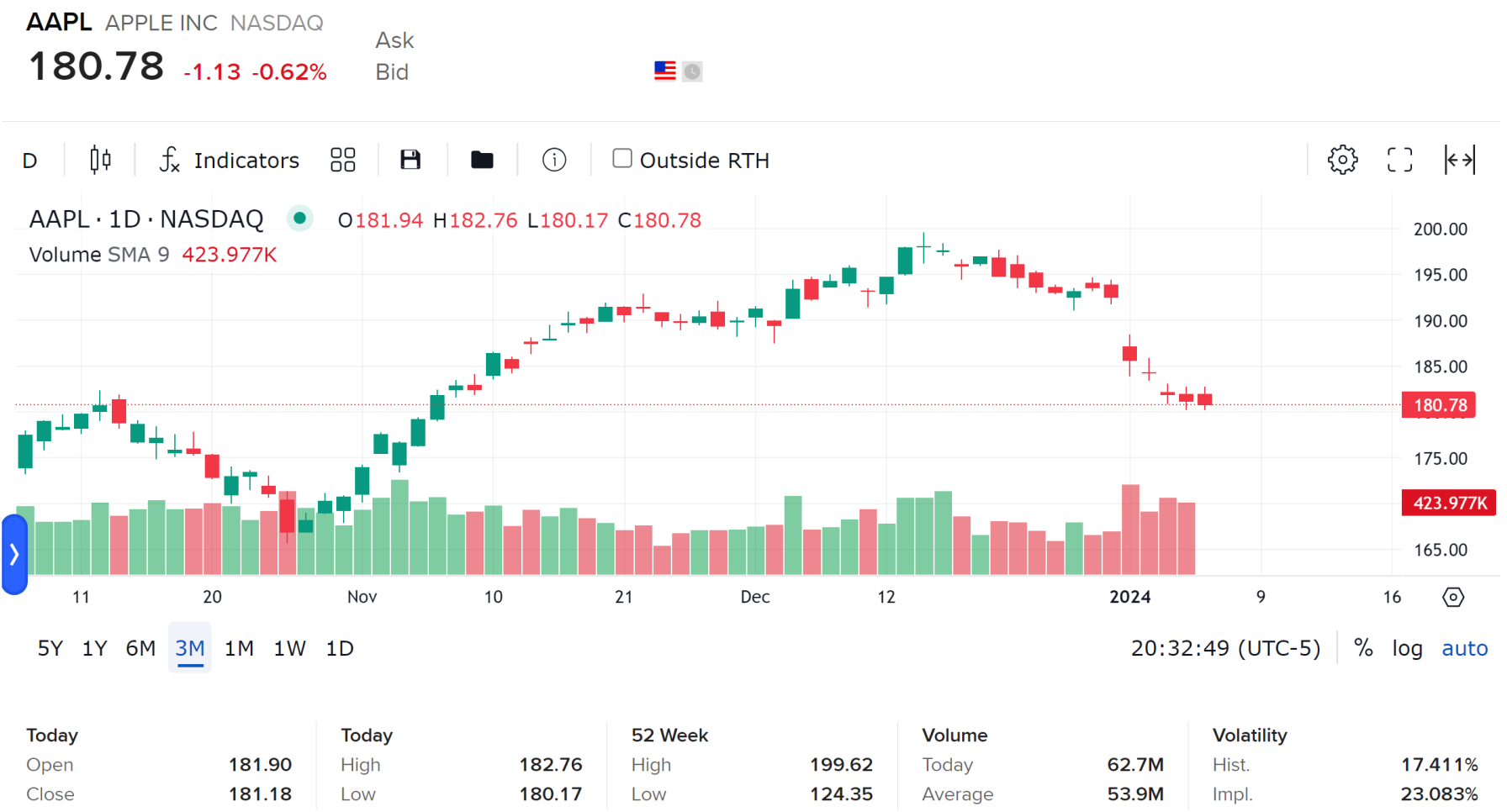
Source: Hypothetical volatility comparison between ETFs tracking stocks in the S&P 500. Actual volatility the trailing 200 days ended Dec 31, 2023 is roughly the same.

How do stocks trade?



Which can never be the same, say the rules.

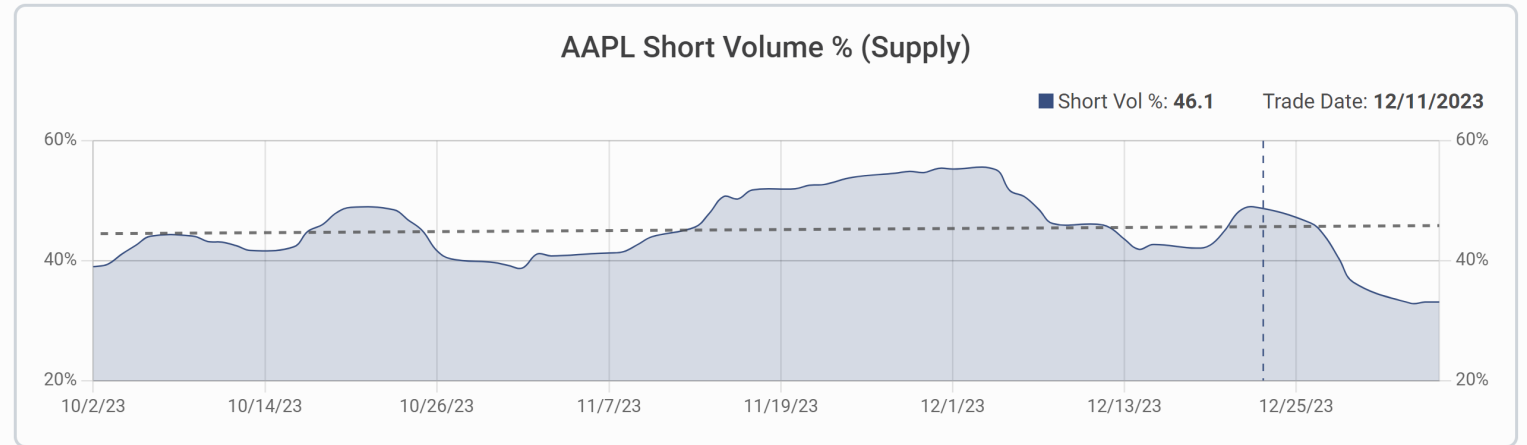
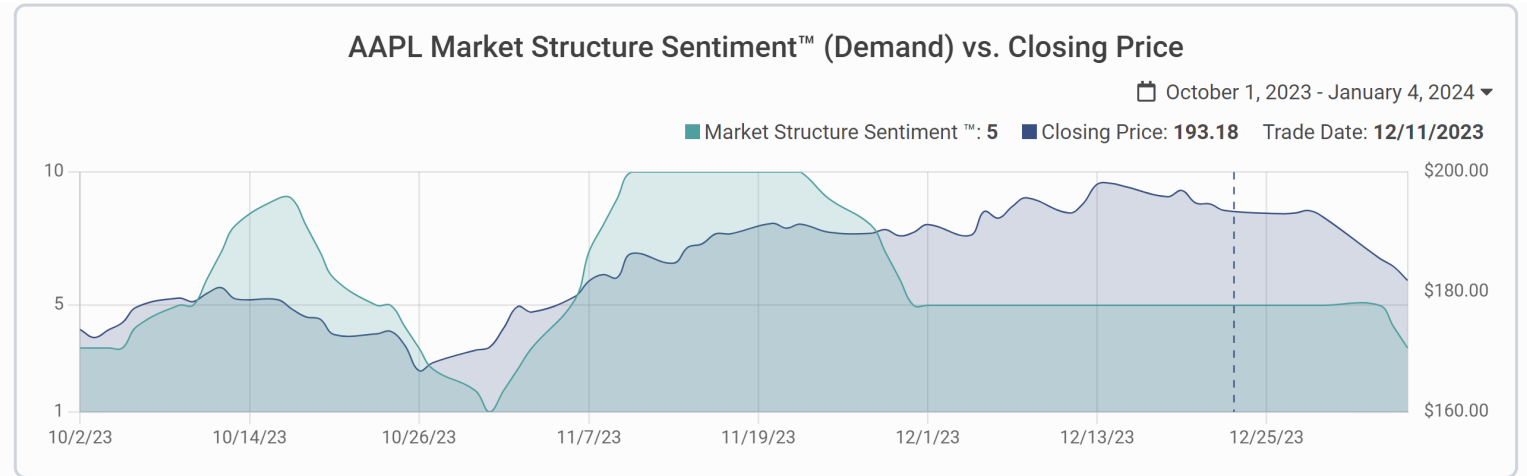
Well, how would you know which way price might go? This?



Interactive Brokers 3M AAPL chart

No, this is how you do it.

But we're not there yet!



Source: Marketstructureedge.com

Your Competition

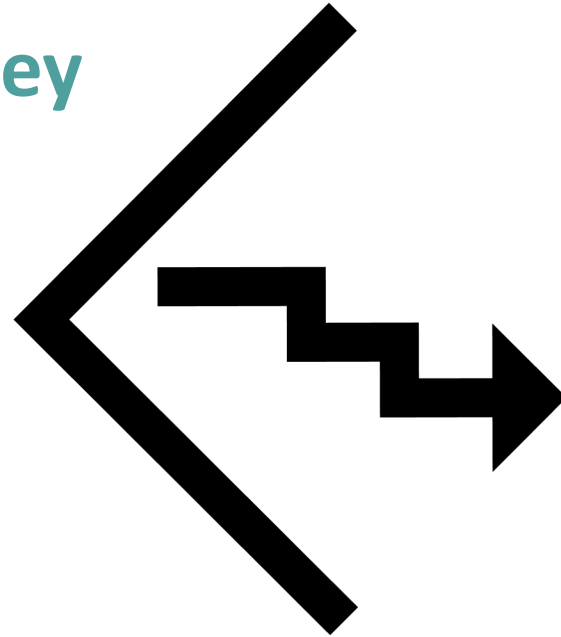
- Prop data feeds from all exchanges
- Ultrafast computing architecture
- Servers at every global market
- Stocks, derivatives, commodities
- Vast financial resources
- The fastest trading

You



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Passive Investment
dominates and needs stocks
as PRODUCTS, not stories.
“We need 35% of the money
in liquid, large stocks...”



And machines set the prices,
and arbitrage spreads.

Don't be discouraged!

Know your market, what you're up against, how to win.



Illustration [31368905](#) © [Arkadi Bojaršinov](#) | [Dreamstime.com](#)

Passive Investors need products (stocks). And trading robots detect demand (and supply).

Entries and exits hinge on Demand/Supply imbalances.



Rosetta stone

History

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