Market Making

The speed and simplicity at which stocks can be bought and sold often are taken for granted. Place an order with your broker, and it is executed within seconds. Market makers are a big reason why such transactions can take place so quickly.

Whenever an investment is bought or sold, there must be someone on the other end of the transaction. If you want to buy 1,000 shares of Disney, you must find a willing seller and vice versa. It's very unlikely you always are going to find someone who is interested in buying or selling the exact number of shares of the same company at the exact same time. This is where market makers come in.

What Market Makers Do

Market makers literally make markets for stocks, thus their name. They typically are banks or brokerage companies that stand ready every second of the trading day with firm ask-and-bid prices. This is good for you because when you place a market order to sell your 1,000 shares of Disney, a market maker will purchase the stock from you, even if it doesn't have a seller lined up. The same process happens when placing a market order to buy shares of stock.

Without market makers, it would take considerably longer for buyers and sellers to be matched with one another, reducing liquidity and potentially increasing trading costs as entering or exiting positions would be more difficult. Financial markets need to operate smoothly because investors and traders prefer to buy and sell easily. Without market makers, there likely would be fewer transactions and the overall markets would slow down. This, in turn, would reduce the amount of money available to companies.

Market makers are required to continually quote prices and their volumes they are willing to buy and sell at. This is to help maintain consistency with markets. In times of volatility, market makers willing to buy and sell at established prices help maintain normalcy with the buying and selling process. Without their presence, buyers could find it difficult to get in on a hot stock, or sellers could find themselves unable to sell a stock if its price is going south.

Market demand dictates the ask prices (what they're willing to pay for shares) and the bid prices (how much they're demanding) set by market makers.

How Market Makers Earn Money

Market makers must be compensated for the risk they take. For example, a market maker could buy your shares of common stock in IBM just before IBM's stock price begins to fall and fail to find a willing buyer to recoup expenses. To prevent this, market makers maintain a spread on each stock they cover.

If a market maker purchases your shares of IBM from you for $100 each (the ask price), it would offer to sell them to a buyer at, for example, $100.05 (the bid price). The difference between the ask and bid price is only 5 cents, but by trading millions of shares a day, the market maker pockets a significant chunk of change to offset risk.

Our Company has huge experience to provide market –making service for

issuer of securities.

If any please contact us by phone or e-mail.

Cheers,