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Market Structure EDGE

Using Volatility for Entries with Market Structure EDGE

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How to Use Volatility for Entries

**Tim Quast, founder and CEO of
Market Structure EDGE
August 2023**

- Market Structure EDGE: *The New Way to Trade*
- Sister Co ModernIR.com largest provider of quantitative equity Market Structure Analytics to US issuers
- Market-structure experts, build software, algorithms, based on market rules

TRACK record

We are nationally recognized experts on US equity market structure, and have grown into industry educators and thought leaders. We frequently serve as financial media experts and have provided written testimony on market structure for Congress.



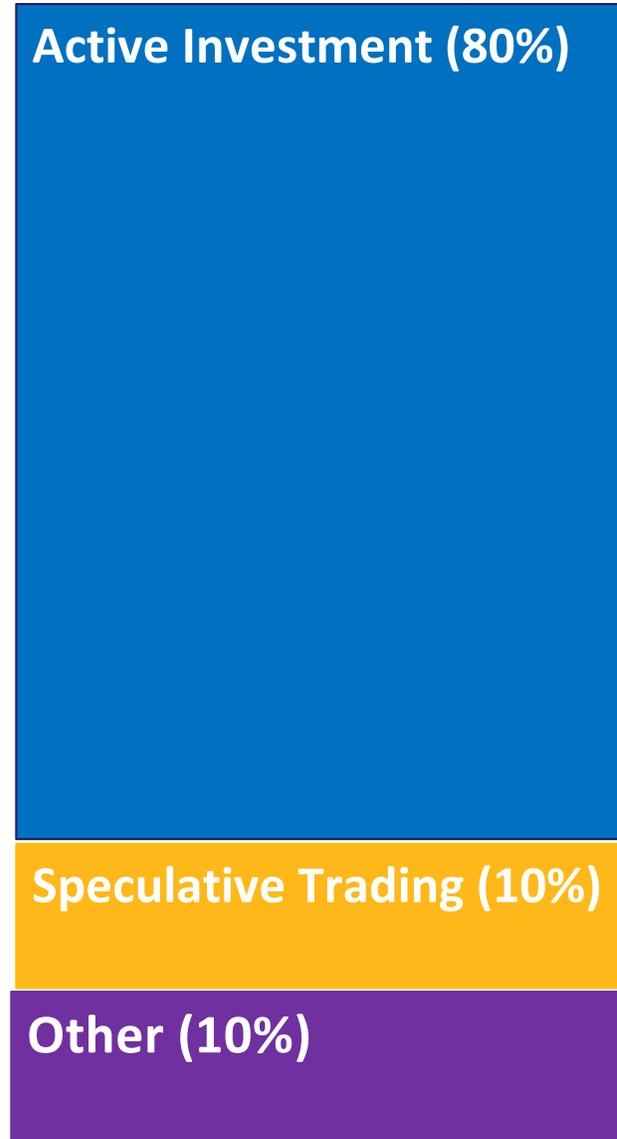
Longtime top national, chapter sponsors of the investor-relations professional association, NIRI.

Market Structure

The behavior of money behind price and volume, in context of rules.

Step 1: Understand the Stock Market – what the money is doing, how the market works

...And Here's How It's Changed



circa 2000:

Winning stocks: The ones the best stock-pickers buy.



This is 2023:

The ones the best stock-pickers buy have a 1-in-10 chance of winning.

Sources: 2000 data are estimated based on firms making markets at the time, Investment Co Institute data on fund assets. 2023 data from ModernIR models.



Market Structure makes winning harder

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

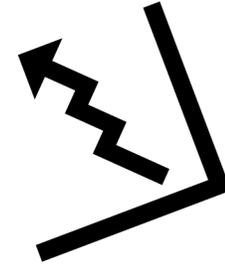
- The Average

Passive Investment tracks averages, prices between Bid and Offer

- The Average

A few big brokers execute most trades and rules require matches between Bid and Offer

- The Average



Stock-pickers seek **OUTLIERS**, rules force prices toward the **AVERAGE**

Tracking the Mean



Sources: ModernIR reviews of market rules, data, analysis 2005-2023.

Long Secular Decline for Stock Picking

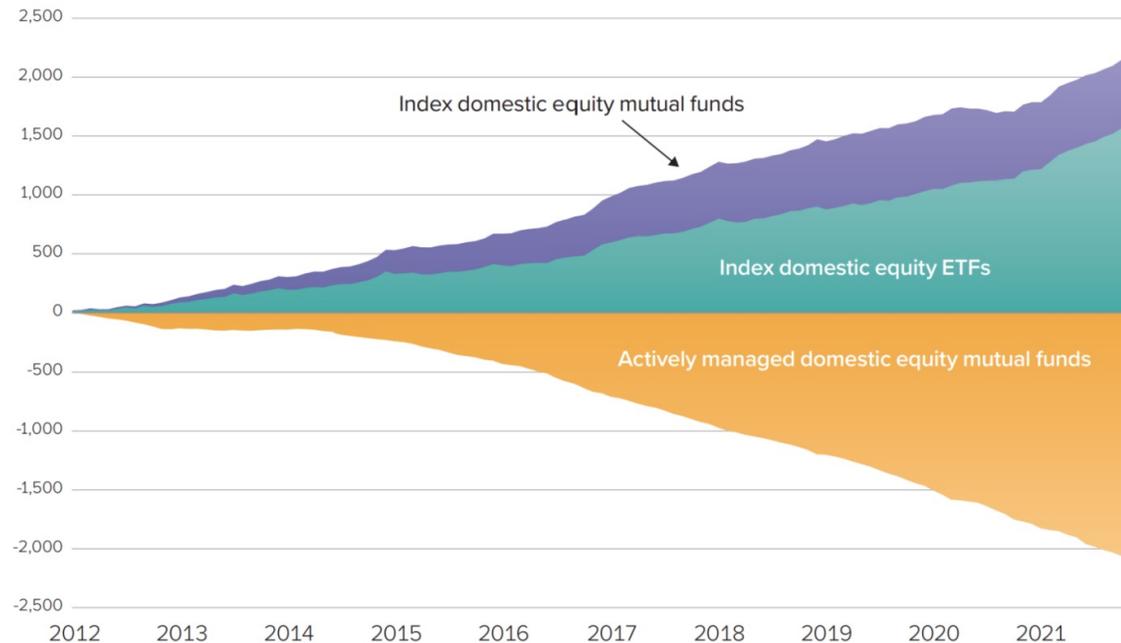
Page 54, ICI 2022 Factbook:

“...Demand for ETFs has been very strong over the past decade. Domestic equity ETFs had net creations in every month of 2021, which resulted in \$520 billion in net share issuance. In contrast, domestic equity mutual funds had net outflows of \$419 billion over the same period.”

FIGURE 3.16

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

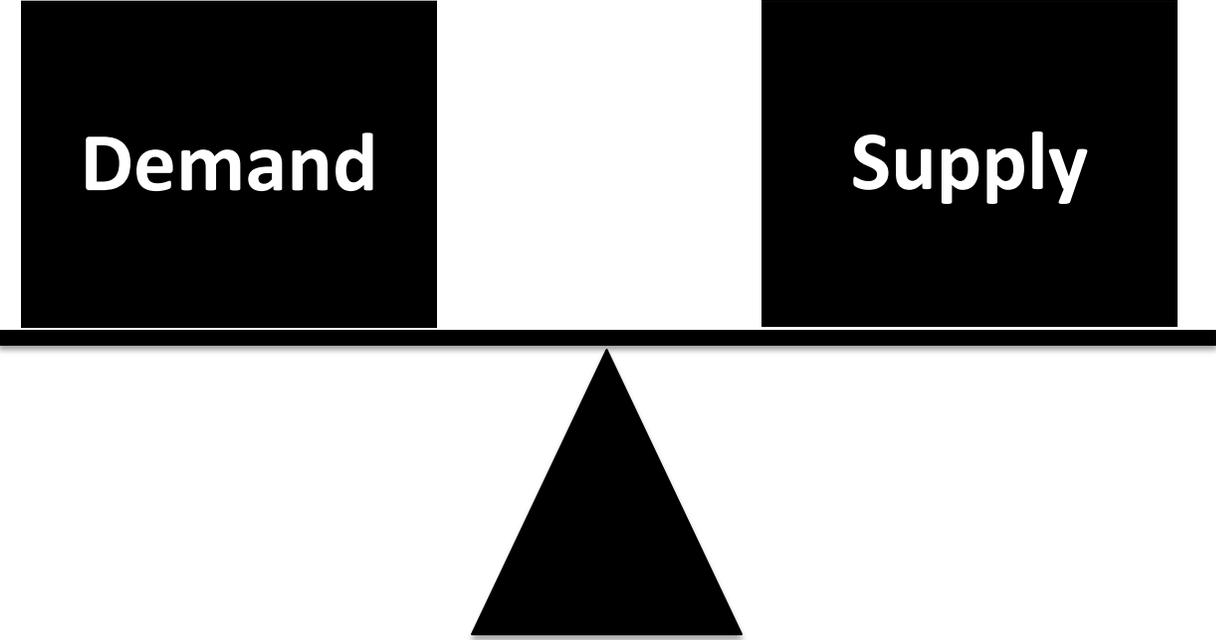
Cumulative flows to domestic equity mutual funds and net share issuance of index domestic equity ETFs, billions of dollars, monthly

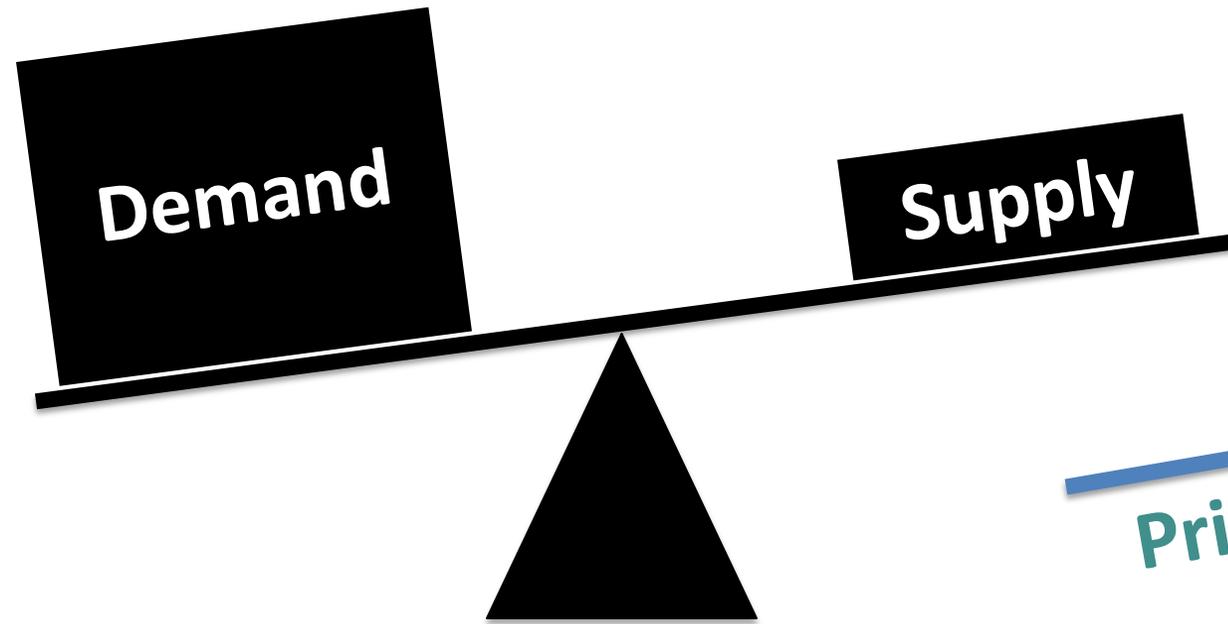


Source: Investment Company Institute 2022 Factbook

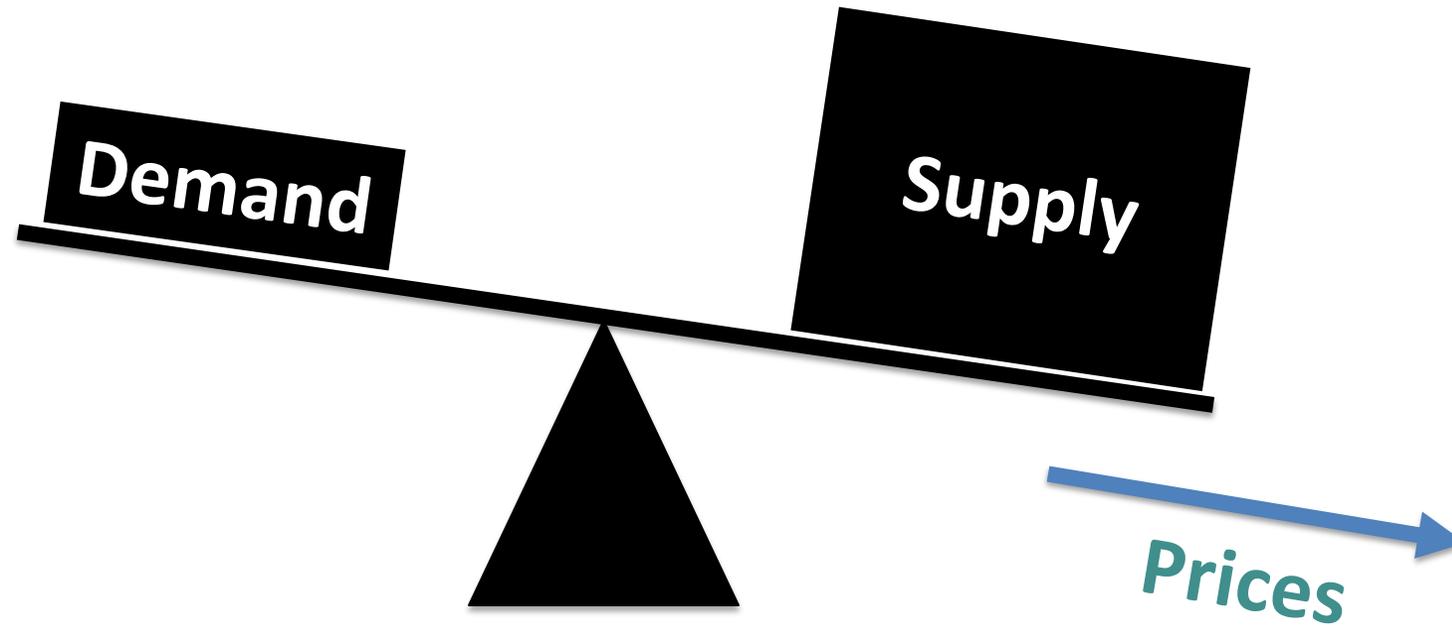
Note: Mutual fund data include net new cash flow and reinvested dividends; ETF data for net share issuance include reinvested dividends.

Step 2: Price, Fundamentals, Technicals, aren't by themselves reliable.





Prices



Step 3: Combine Demand/Supply Imbalances with Volatility for Entries

What Are “Supply” and “Demand”?

Demand. An algorithm called “Market Structure Sentiment” metering buying and selling by investors under rules governing quotes and trades in US stocks. It’s a predictive mathematical calculation of the velocity of short-run price-movement driven by behavioral change and normalized to a scale of 1-10 with 1 being negative but oversold and 10 being positive but overbought. It’s the DEMAND read, and Demand over 5.0 tends to produce rising stocks and markets, and vice versa.

Supply. Short volume is the percentage of trading volume predicated on borrowed stock. It derives from 2010 Reg SHO modified-uptick rules for shorting stocks, is regulated by Finra, and includes market-making exemptions to short-locate rules under Reg SHO Rule 203b(2).

What is “Volatility?”

TRADING STATISTICS

	5-Day	20-Day	50-Day	200-Day
Average Vol	108,331,299	146,214,940	138,371,431	136,042,556
Short Vol.	56.9%	58.2%	59.2%	53.2%
Intraday Volat.	2.7%	3.8%	3.8%	4.9%
Average Price	\$272.47	\$263.92	\$219.20	\$193.61
Shares/Trade	91	97	101	102
Trades/Day	1,185,911	1,513,720	1,366,421	1,336,304
Dollars/Trade	\$24,890	\$25,493	\$22,198	\$19,711
Dollars/Day	\$29,517,245,701	\$38,589,704,853	\$30,331,405,163	\$26,339,257,137

TSLA Trading Statistics at Jul 12, 2023:

Volatility = average spread between high and low daily prices.

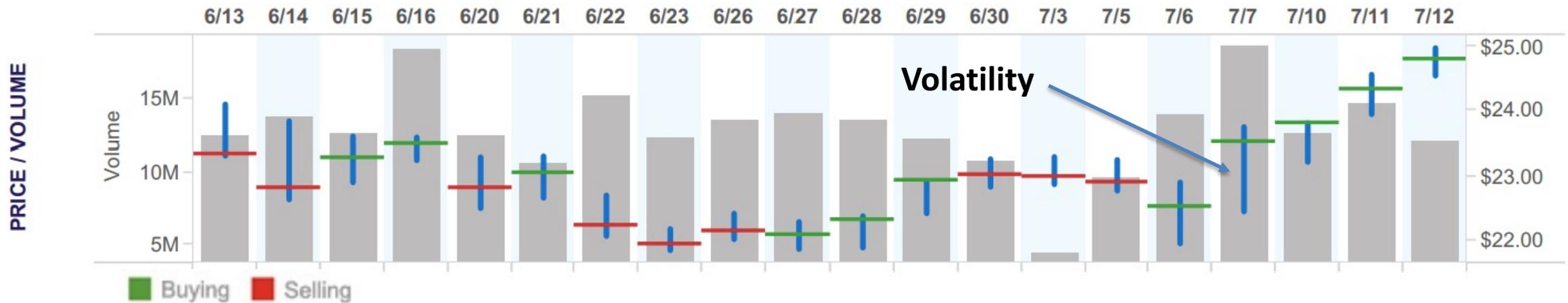
Data compiled by ModernIR. Price data from QuoteMedia.

EDGE Momentum Portfolio: Jul 13, 2023

<input type="checkbox"/>	Ticker	Demand	D-Trend	Supply	S-Trend	Last Close	Volatility	\$/Trade	Volume	Market Cap	Behavior	Sector	
<input type="checkbox"/>	.. TFC	8	Up	46.2%	Down	\$33.02	3.1%	\$4,580	10.17M	\$43.98B	Risk Mgmt	Financials	▼
<input type="checkbox"/>	.. COHR	10	Topped	33.2%	Down	\$49.96	5.2%	\$3,892	3.76M	\$6.96B	Passive	Informatio...	▼
<input type="checkbox"/>	.. MRO	10	Up	43.5%	Down	\$24.79	3.3%	\$4,827	12.06M	\$15.31B	Passive	Energy	▼
<input type="checkbox"/>	.. TPX	10	Topped	44.4%	Down	\$44.29	3.2%	\$4,113	2.57M	\$7.62B	Active	Consumer ...	▼
<input type="checkbox"/>	.. ATI	10	Topped	47.6%	Up	\$45.62	3.7%	\$3,441	1.7M	\$5.86B	Fast Trd	Materials	▼
<input type="checkbox"/>	.. FUTU	10	Up	47.6%	Up	\$45.27	5.2%	\$3,246	2.31M	\$6.32B	Active	Financials	▼
<input type="checkbox"/>	.. SQM	10	Topped	49.2%	Down	\$80.17	3.2%	\$4,801	1.41M	\$22.9B	Risk Mgmt	Materials	▼

MarketStructureEDGE.com – Momentum Dynamic Portfolio. *Any trading symbols, entities or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.*

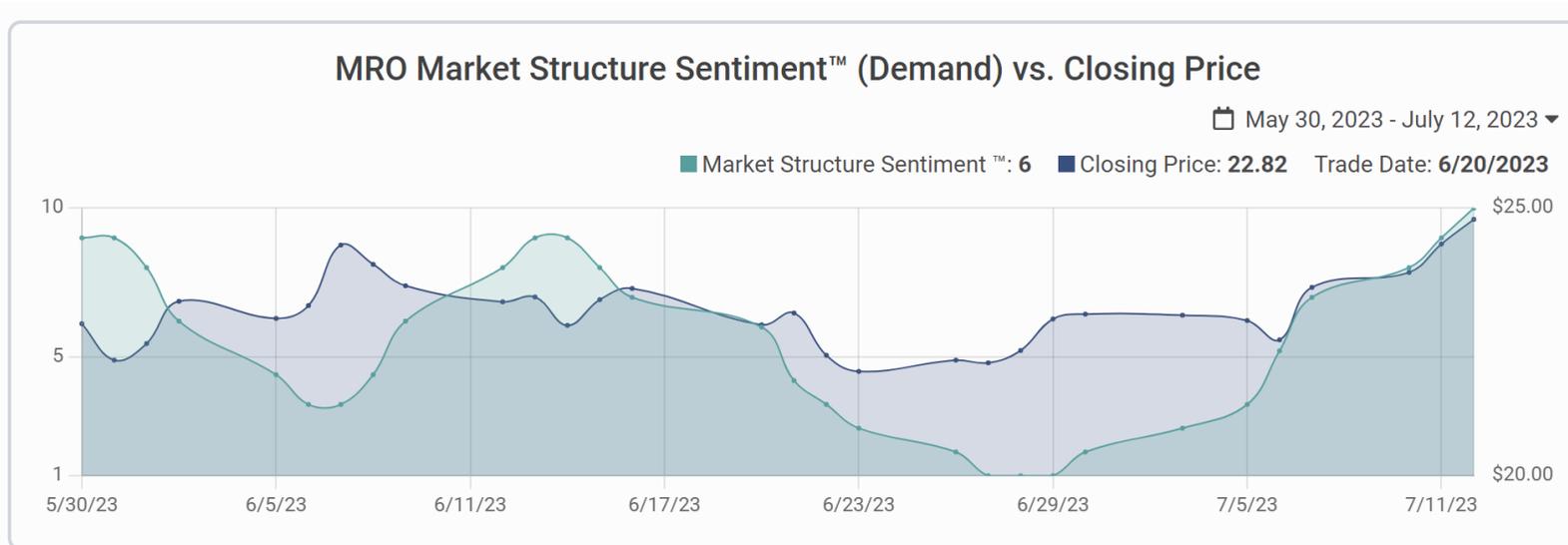
MRO: 20 Trading Days – Jun 13-July 12, 2023



1. The stock market is 100% electronic, 98% algorithmic.
2. Automated traders, Passives, are more than 70% of volume.
3. Passives NEED an average price. The benchmark.
4. Fast Traders move the price up and down past it, to take fractions of pennies.

Data courtesy ModernIR.com. Any trading symbols, entities or investment products displayed are for illustrative purposes only and are not intended to portray recommendations. Past performance is not necessarily indicative of future results.

MRO at MarketStructureEDGE.com



Demand vs Closing Price on top.

Supply at bottom.

Divergences lift Price.

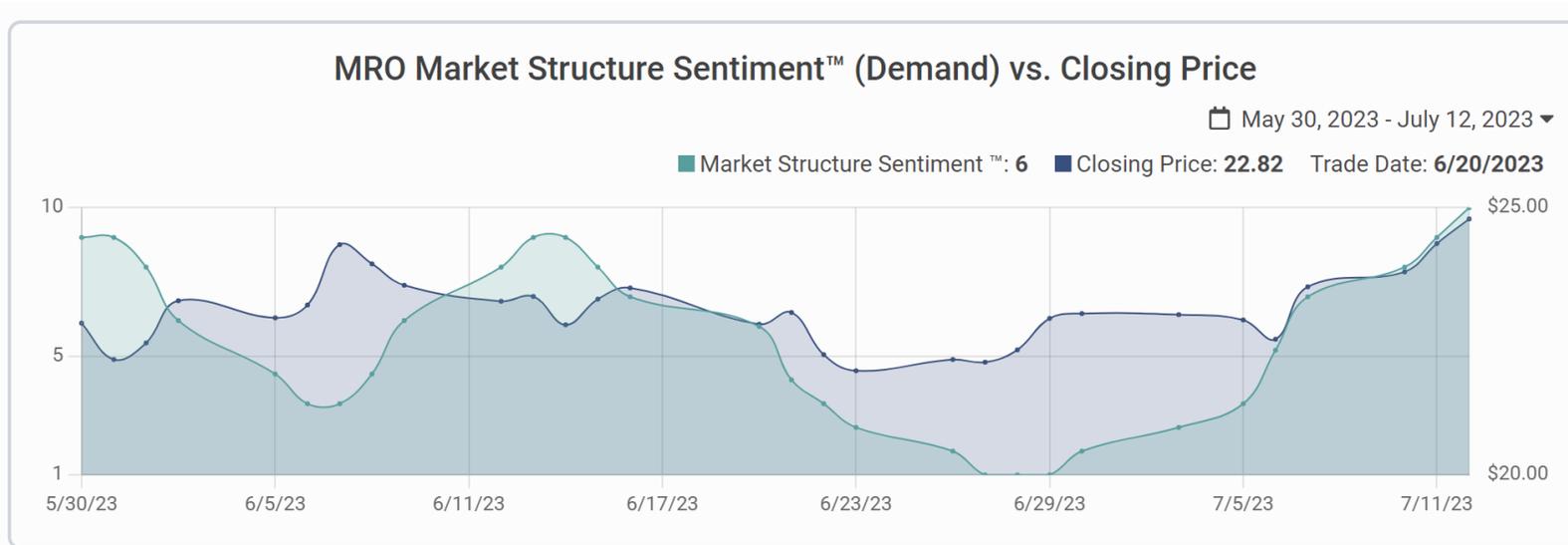
IF MRO has strong Demand/Supply divergence, and MRO Volatility is 3.3%, and IF MRO declines 1.7% intraday,



The probability of making 1-3% in the next day or two is a strong mathematical probability.

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MRO Hypothetical:



Previous close: \$24.79
MRO declines 1.7%: \$24.37

Limit up 2.5%: \$24.98
Stop down 50bp: \$24.20

Risk: You lose 0.5%
Reward: You make 2.5%



How long 1-3 days.

Wash, rinse, repeat.

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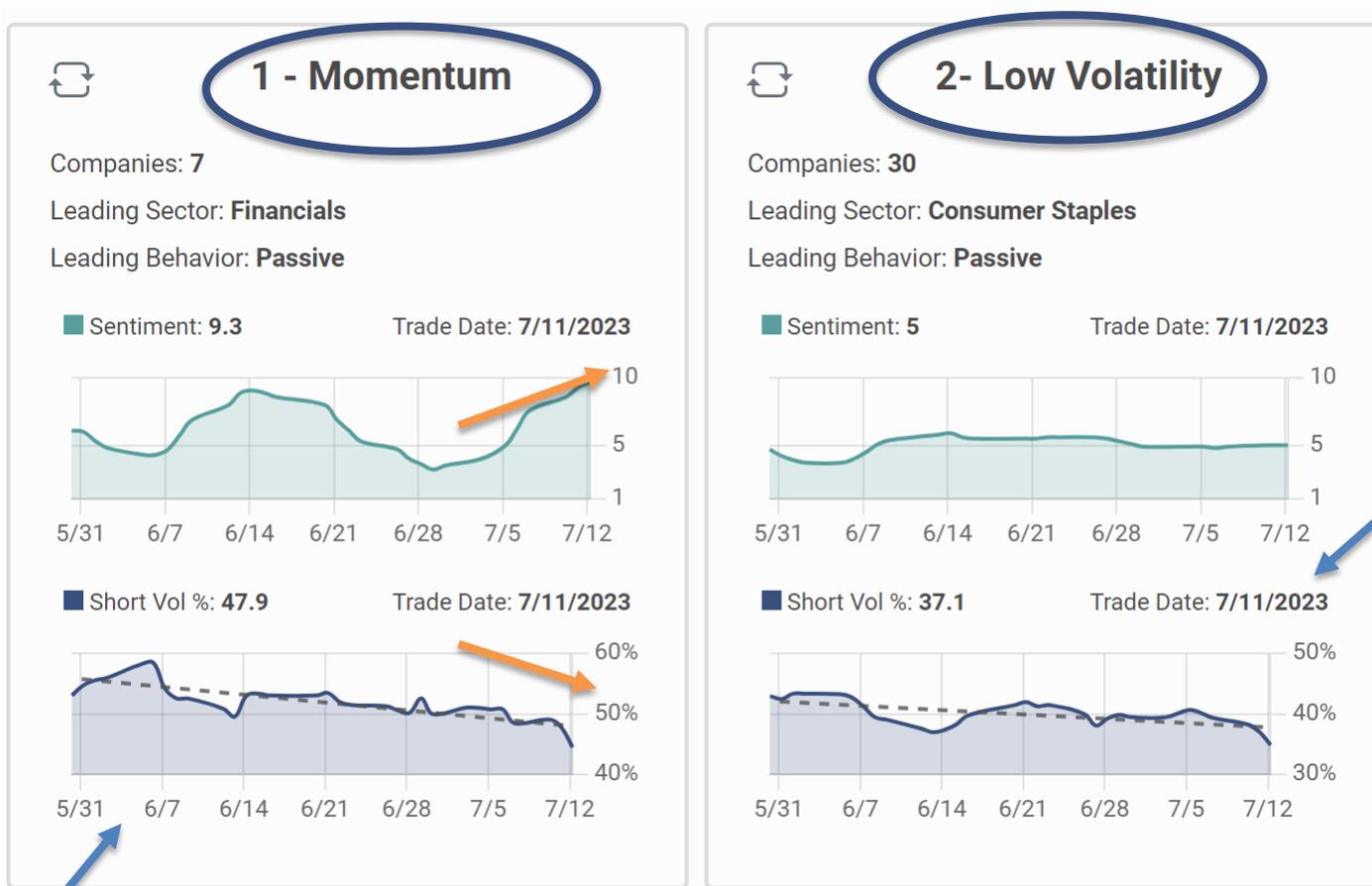
Why?

Because algorithms consume data on average prices. They are not humans. They have risk parameters, in PERCENTAGES, not PRICES.

Machines will give us a PORTION of volatility. Take that probability WHEN Demand/Supply imbalances increase odds.

Let's go to marketstructureedge.com...

Momentum vs Low Volatility (EDGE math)



**Low Volatility
stocks exhibit
STABLE Demand,
falling Supply**

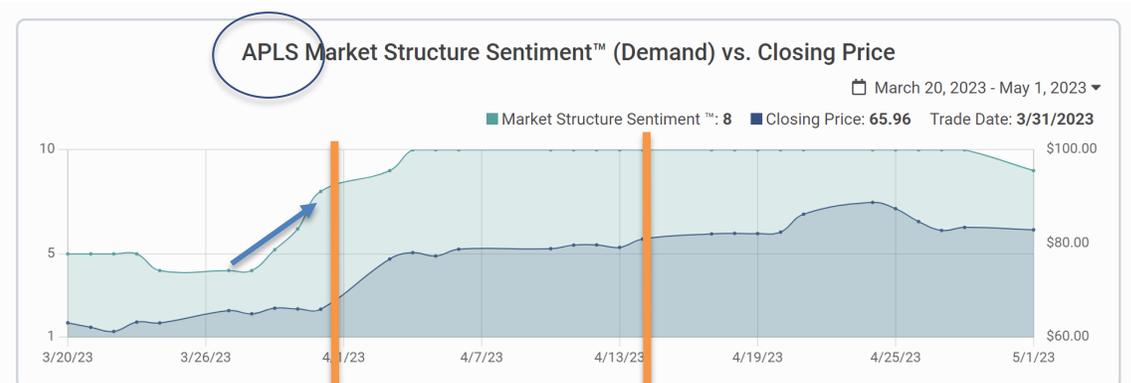
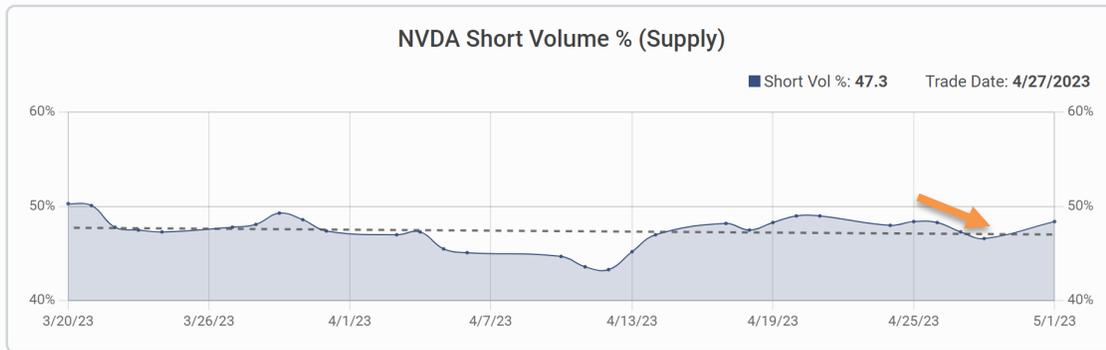
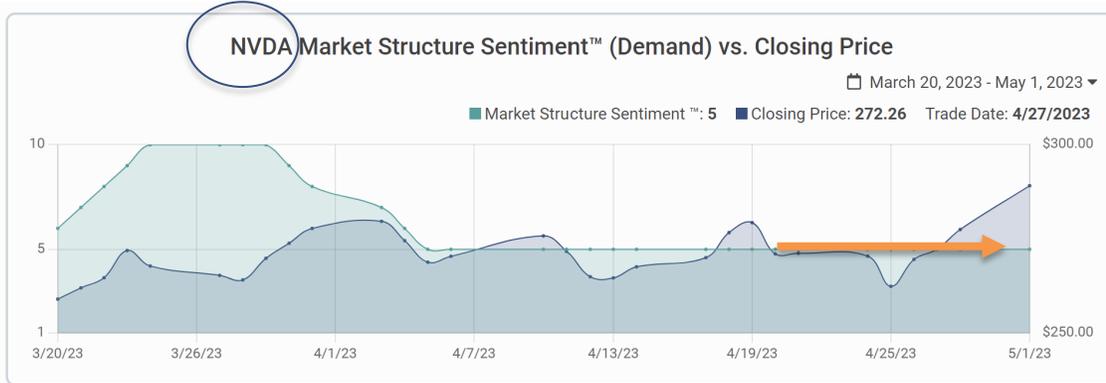
**Momentum: More return, but more risk.
Low Volatility: Take 1%**

Go where the money is.

Momentum typified by diverging Demand (Market Structure Sentiment) and Supply (Short Volume)

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Divergences



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Why Market Structure EDGE Works



- 1. Machines set prices.**
- 2. Passives want average prices.**
- 3. EDGE identifies Demand/Supply imbalances, and Volatility.**

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Past performance is no guarantee of future performance. Conclusions are not advice but statistical observations in data from Market Structure EDGE LLC.



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BENZINGA



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