PART-TIME MARKET MAKER SECRETS

Dan Murphy

ABOUT THE AUTHOR

Dan Murphy is a 25-year veteran trader and founder of Portfolio Boss, a software platform used for designing and testing trading strategies. He has published five books on trading, including a #1 bestseller in Finance, with over 500,000 copies and counting.

Over the past several years, and $3 million dollars later, his team has built a "SuperAi" network of over 3,500 computers in the cloud. By combing these computers with strong machine learning, they are able to automatically program themselves in "C code" and generate profitable trading strategies with a click of a button. Nicknamed "The Boss", this state-of-the-art tool was only available to multi-million-dollar hedge funds, but now it's available to everyday kitchen counter traders looking for consistent income.

Known as the Prince of Proof, Dan constantly calls out pseudo-scientific trading methodologies due to the financial harm it does to millions of traders. Like many, he blew out three trading accounts following the advice of "gurus" and pseudo-scientific methods such as Elliott Wave and pattern recognition before switching over to 100% scientifically proven trading strategies.

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INTRODUCTION

Market Maker: A market maker is an individual participant or member firm of an exchange that buys and sells securities for its own account. Market makers provide the market with liquidity and depth while profiting from the difference in the bid-ask spread. – Investopedia

Part-time Market Maker: One who trades like a market maker: Extremely consistent in generating profits while taking up less than per hour a week. That way you can do the things you love instead of being a slave to a j-o-b or constantly being glued to a computer screen.

I was reading about Senvest Management and how they made $700 million on GameStop...by far their best trade ever. Good for them.

Here's what I wrote that day about the would-be "Reddit millionaire" traders: "... most of these traders are in Phase 1 and have no idea of what's about to hit them." Phase 1 being a complete newb that is about to lose it all.

Unfortunately, almost all of them did lose. I've been there, so I feel for the millions of good folks that drank the Kool-Aid.

Getting back to the $700 million trade...

What caught my eye in the story was that Senvest used a tweet from Elon Musk to exit the trade. You'd think a multi-billion-dollar fund would be using sophisticated computers.

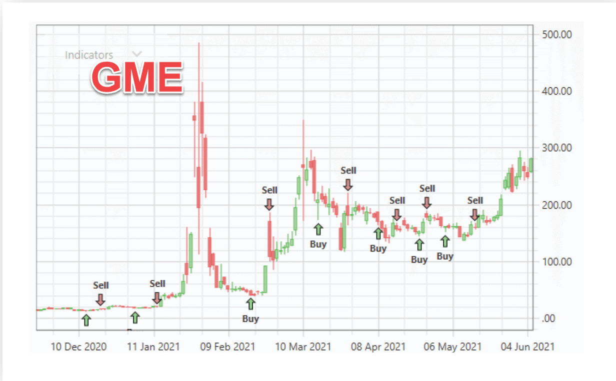
Nope.

Elon simply said, "**Gamestonk!!**" in a tweet, and they got out. Their reason to be in the trade -- along with just about everyone else -- was that short interest in GME was 141%.

I argued that this was incorrect. In fact, the short interest was at 58%.

S3 Partners, a data provider, had pointed out that the calculation of short interest as a percent of float is completely flawed. I agree. Strange how even a multi-billion-dollar hedge fund didn't know that. I guess it's better to be lucky than good.

GameStop did of course exhibit price anomalies, which made it ripe for **part-time market making.** Check out this series of trades:



+25%, +9.6%, +297%, +5.7%, -4.1%, +26%, +6.7%.

Those are definitely not typical results, but it's interesting how you could have made these trades by simply placing a **precise limit order** the night before. And instead of pouring through Elon Musk's tweets, Reddit message boards, and watching Cramer flap his yap for hours on end, you receive the signals in an email at 4:30PM. Then you place the orders with your broker and go about your business. That's how trading should be right?

Take a look at these simple instructions:

Action	Limit	Rank	Symbol	Description
Sell		4	NOC	Northrop Grumman Corp
Buy	10.53	1	RRD	Donnelley & Sons Co
Buy	38.00	2	SLB	Schlumberger N.V.
Buy	483.11	3	PANW	Palo Alto Networks Inc
Buy	103.72	4	LYV	Live Nation Entertainment Inc
Buy	91.83	5	BLL	Ball Corp
Buy	110.72	6	CCK	Crown Holdings Inc
Buy	68.59	7	TJX	TJX Companies Inc (The)
Buy	63.39	8	CIEN	Ciena Corp
Buy	73.26	9	AOS	Smith (A.O.) Corp
Buy	54.32	10	IR	Ingersoll Rand Inc

Notice how each of these "buy" signals has a precise limit order to get into a potential money-making trade. These limit orders only trigger if the price goes down enough to hit them. You can even get paid a rebate from the exchange for providing liquidity. Imagine that?

While most traders tend to react to the markets, a Part-time Market Maker patiently waits for price to come to him. You just place these limit orders the night before, and wait for them to hit.

Setting Your Lobster Traps

It's like setting up lobster traps. You set up a lobster trap with oily fish bait, then come back later to see if the lobster crawled in and got stuck. You're not sitting there all day squinting at the tip of your fishing pole just like you're aren't required to look at a single chart or watch the news as a Part-time Market Maker.

Lobster traps are specifically designed with an escape hatch for smaller lobsters. That way only the big guys are trapped, and the little ones get a free meal and crawl out. If our limit order isn't hit, it means we're not getting a big enough deal, so there's always another day and another deal to be found.

I was watching a popular Youtuber show how to trade the other day. He's a nice enough fellow. He was teaching people about the level 2 order book...the pace of the order flow is just insane.

He's got these giant computer monitors with charts and lines and Fibonacci nonsense scribbled all over. I thought to myself: This kind of trading is the fast track to unhappiness...or a heart attack. To each their own I guess...

Here's the kicker: He was honest enough to show some stats, and his profit factor (a ratio of profits vs losses) was a low 1.3. That's extremely inefficient, and is a symptom of over-trading. In case you were wondering, the profit factor for Part-time Market Making is currently at 2.03. That's the difference between trading by the seat of your pants, and finely tuned, scientifically proven trading.

So keep reading, and I'll share how you too can become a wildly successful and consistent Part-time Market Maker without spending endless hours starring at charts, sacrificing nights and weeks, or starring at the ceiling at 3AM worrying about "The Market."

DETECTING PRICE ANOMALIES

a·nom·a·ly
/əˈnäməlē/

noun
noun: anomaly; plural noun: anomalies

1 *Something that deviates from what is standard, normal, or expected.*

We've all had a slip of the tongue...but this one resulted in millions in earnings lost.

The year was 1989...

Andre Agassi, the famous tennis player was facing world #2 Boris Becker. Known as "Boom Boom" because of his massive serve (which registered as high as 156MPH according to ATP), he ate Agassi for lunch. But in later years, Andre destroyed Becker in 10 out of 11 matches.

What was the difference?

It turns out that Becker had a tell...he would stick out his tongue in the middle of his mouth if he was going to serve at the player. If he was going for a corner short, he'd stick his tongue out that way.

By reviewing tapes of Boris, Agassi was able to catch the ever so slight slip of the tongue. // *Quick note: Agassi ran a back test on Becker //*

Strangely enough, individual stocks have a "slip of the tongue" that telegraph they're about to launch higher. Imagine if you were able to read the market like a professional poker reads his opponents. That would sure take the stress out of trading, right?

Then you'd have more time to focus on the things you love to do instead of constantly scanning the headlines for the next big idea

In the stock market, there are on average hundreds of price anomalies that Prime Market Makers take advantage of. They earn a few pennies or even fractions of a penny on shares of stock they trade. In order to do so, they employ hundreds of computer scientists, rows of computers, and billions of dollars.

I won't be discussing that today. Instead, I'm going to show you how to become a Part-time Market Maker – and it starts with identifying price anomalies. That way you can make a few trades during the week and go about your business...and potentially generate enough revenue to replace your current salary...or retire comfortably. You can even automate the process with software.

trades during the week and go about your business...and potentially generate enough revenue to replace your current salary...or retire comfortably. You can even automate the process with software.

There are on average 25 anomalies every trading day that a Part-time Market Maker can take advantage of. These little slips of the tongue can alert you to a profit potential.

If you place your order correctly (like a Market Maker would), the average gain has been just over 4%. That's about $400 on a $10,000 trade. (Which these days could buy you a new HP laptop with 4GB of RAM).

Considering this "slip of the tongue" effect lasts about a week, you can see how part-time Market Making could replace the income of a J-O-B. With numbers like that, you wouldn't second guess yourself and wonder if your trade is once again going to bite you in your pocketbook. Instead, you wouldn't hesitate to make the trade. In fact, you would be eager to make them... like a beer taster loves going to his job.

I can promise you this: If you knew how to detect these anomalies, you'd never draw lines on charts again, you'd never make a news-based trade, and you'd laugh anytime someone mentioned "head and shoulders" patterns.

These anomalies can be detected purely from price behavior of a stock. By taking an average of price, and then calculating when price has moved too far below its average, you have a mispricing anomaly.

There are three different methods used to calculate this “over-sold” price level:

1. Bollinger Bands, which uses standard deviation to determine over-bought and over-sold. No offence to Mr. Bollinger, but we now know that stocks DO NOT move according to standard deviation, so I never uses Bollinger Bands in my trading.

2. Average true range (ATR). By taking the average of the highest price of the day minus the low, this indicator can be used to discover anomalies.

3. Percent difference. A simple calculation of the difference between the short-term moving average and the current closing price. Sometimes simple works well. For example, let’s say Apple is trading 5% below its 5-day moving average. You can also use a combination of ATR and percent.

Price anomalies can also be detected via options, NAV premium, and even Twitter data. But for this report, I want to keep things simple.

WALKING THE TIGHTROPE

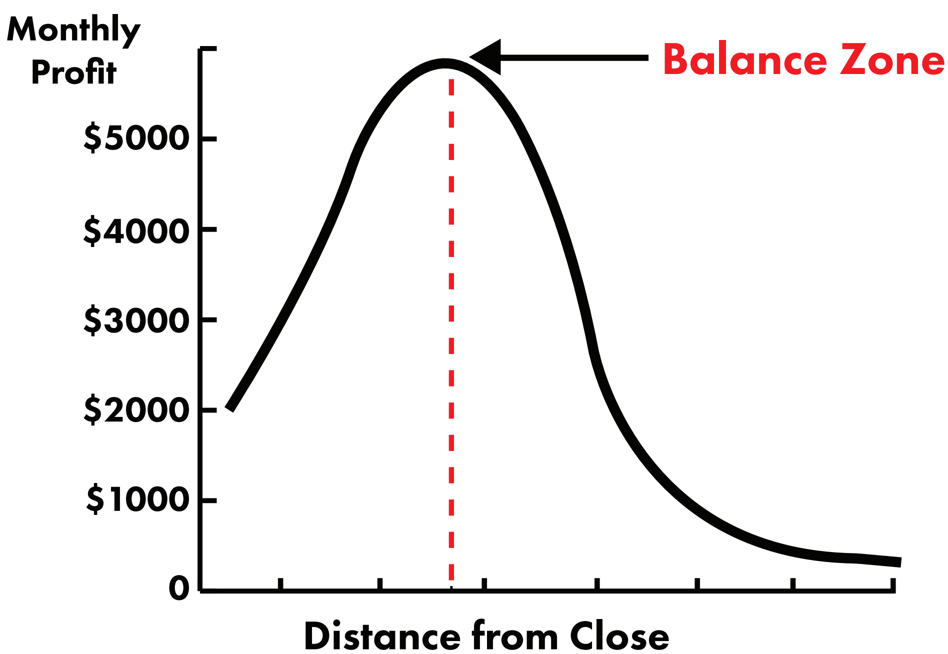
While there isn't an average wage listed for "tightrope walker," the average pay for a circus performer is $21/hour. I guess they're not selling as many bags of peanuts as they used to.

However, if you do that same stunt in spectacular fashion -- like crossing the Grand Canyon -- it could make you a cool $500k. That's what stuntman Nik Wallenda makes PER STUNT. Of course, Nik's job is life and death, and he's a 7th generation performer with balls of steel. Yet his balancing act is certainly important to us traders as well.

As a consistent Part-time Market Maker, after you detect a price anomaly, you want to place a buy limit order below where the stock closed. A buy limit order will only execute at or below the limit price. That way you're trading like a Prime Market Maker (and we all know they make billions doing this tens of thousands of times a day).

Here's the catch:

Not only do you want to maximize profit on the trade, you also want to increase the chance of getting filled. If I can identify a stock that's over-sold, and I put in a limit order right where the stock closed the day before, maybe I can make let's say $2000/month.



If I put my limit order WAYYYY below the previous day's close, then I'll rarely get filled, and maybe I make 500 bucks a month. **But if I put my limit order in the *Balance Zone*, now we're making the most amount of fungolas possible in the minimum amount of time.**

So you don't want to try to capture the low of the day...you want to walk the tightrope between getting filled on your order and getting in at a low price.

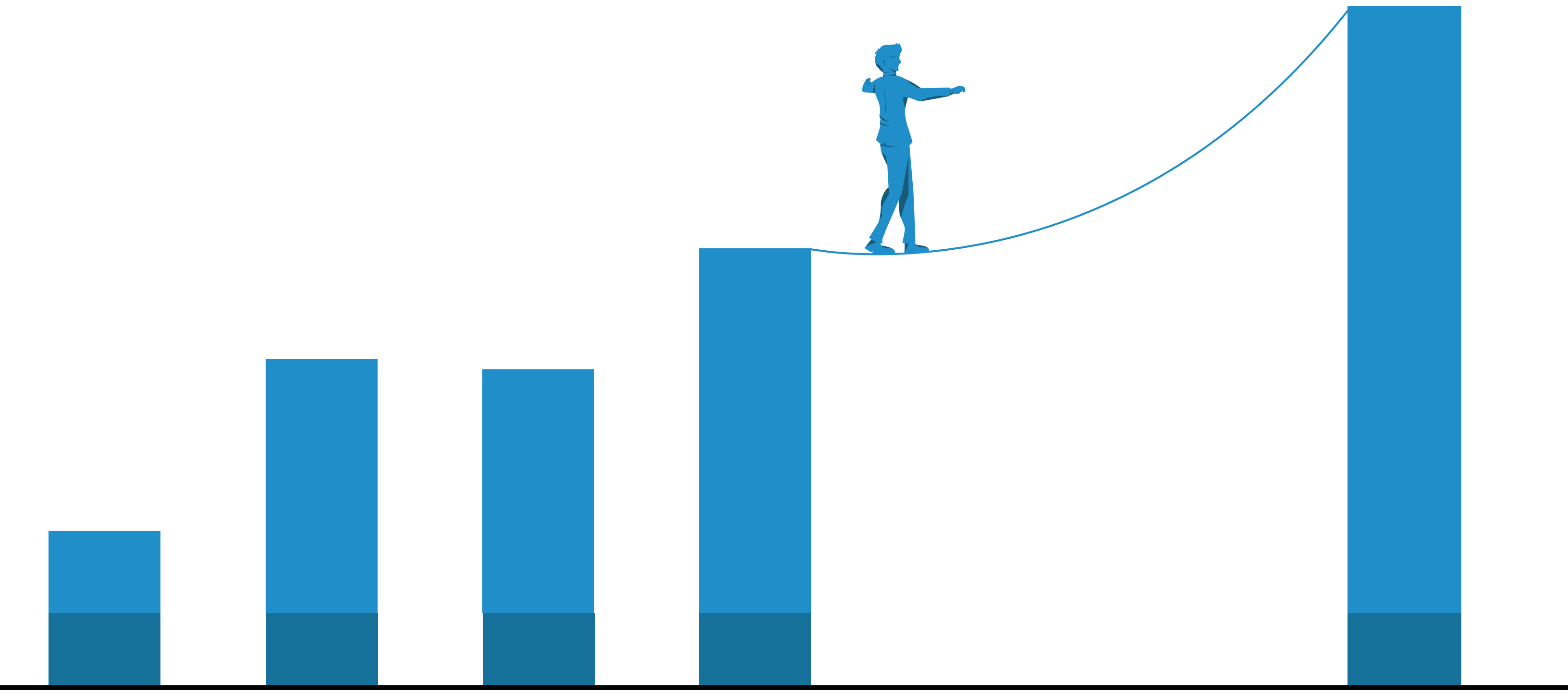
Make sense?

I hope you said yes, because this technique could easily add an extra zero to your trading account post haste.

Rookie traders are always in a hurry so they usually buy the full retail price (the ask) without batting an eye. Market Makers on the other hand buy at a discount by waiting patiently like a skilled fisherman for retail seller's stop losses to get hit. So they always buy at the bid.

// **Quick side note:** By using limit orders that make liquidity for a stock, you can qualify for rebates on your commission. Depending on the exchange, it can be as high as $2 per 1000 shares traded. Yet another reason why you want to trade like a Market Maker rather than a retail trader. //

By the way, Market Making firm Goldman Sachs paid $5 million for a custom-made Julie Meheretu mural for their New York headquarters. It looks like subway graffiti, but it just goes to show you how much it pays taking the other side of the trade right?



GETTING OUT WITH THE HOOK

I learned how to fish from my grandpa. He was an old soul from Oklahoma with the patience of Job. I suppose you'd have to be in order to tolerate a three-year-old whipper snapper.

The concept of fishing is simple: You wait patiently for the fish to come to your bait. Then you hook it and methodically and skillfully reel it in.

So why is it that millions of traders are the fish instead of the fisherman? They fall for the hook pattern almost every time. Here's a prime example:

Instead of letting the market come to them, most traders need confirmation that the "coast is clear."

That's where you'll see MACD, candlesticks, and other indicators flash a buy. Here's the kicker: That's when a Part-time Market Maker is selling!

Look at the price chart again. It literally looks like a hook, and you're the fish!

A fisherman looks for the tip of the fishing pole to jiggle as a cue to hook the fish. A Part-time Market Maker sees the opportunity to buy when price is declining fast -- not when it's rising.

Old Wall Street adages like "never catch a falling knife" come to mind...

...but we're not in the knife catching business -- we're in the money catching business. So take your dumb sayings and shove it, Wall Street!

Now you're one step closer to being the fisherman instead of the fish. There sure are a lot of fish lately: 15 million new traders over the past two years.

Makes sense that Market Makers are having their best years EVER. ($6.7 billion at Citadel in 2020).

BUYING THE CREAM OF THE CROP

A Prime Market Maker must make a market in all stocks. There are currently nearly 6000 stocks on the NYSE and NASDAQ exchanges. Clearly trading that many stocks doesn't fit in with your agenda of being a Part-time Market Maker. In fact, you might not want to trade more than ten stocks simultaneously. Doing so might drive you nuts, and Part-time Market Making is all about living a stress-free life.

So you have to have a method for weeding out thousands of stocks right?

The first things you do is completely cut out all the small cap stocks where it's too easy to influence price – even with just 1000 shares. I was teaching a class, and decided to demonstrate why to the audience.

It was 9AM Eastern, and the stock market wasn't opening for another 30 minutes. The fund I was trading normally trades millions of shares per day...but in the pre-market, the bid/ask size was only 1 to 10 shares. So what I did to demonstrate what NOT to do was accomplished by placing a MARKET order for 100 shares. Price went from 40.30 to 40.45 in just a few seconds as my small order blew right through the order book. That's the opposite of how a market maker trades, but I think I made my point.

The easiest way to cut out the illiquid stocks is to only trade those in the S&P 500 and NASDAQ 100. These are the largest companies in the United States. The market cap of the S&P 500 is $40 trillion. The market cap of the NASDAQ 100 is about $15 trillion. There's some overlap between the two, but now we're focusing on stocks that we can't move around too much.

Due to the over-lap between the two indices, we've narrowed our list down to 562 stocks at last count. That's still way too many stocks to handle for a Part-time Market Maker.

Back in 2013, **I wrote a book named The Relaxed Investor.** What I introduced to the world was rotational investing. What's that?

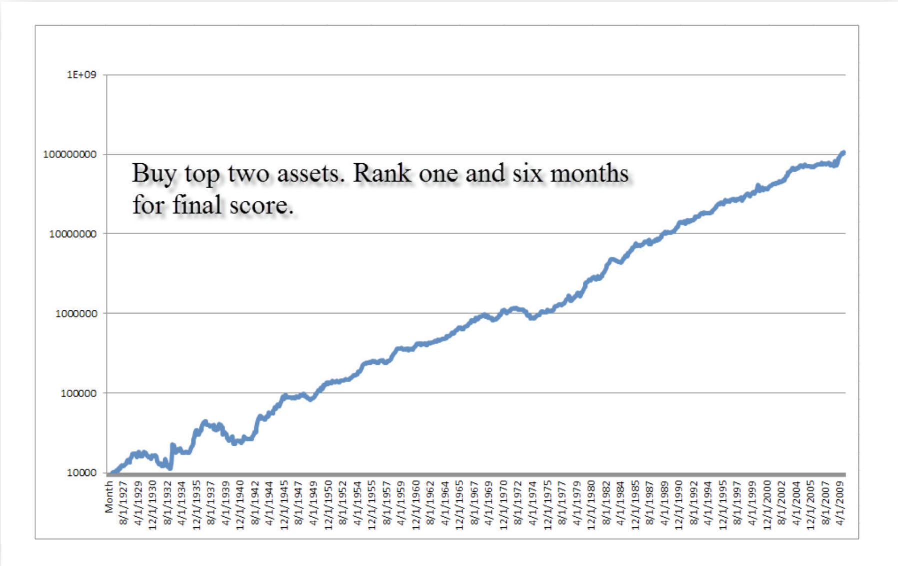
Well, I ended up buying a dusty old book on eBay for a tidy sum. The reason was to use their data tables that went all the way back to 1926. It included:

1. Large cap stocks
2. Small cap stocks
3. Long-term government bonds
4. Intermediate-term government bonds
5. Long-term corporate bonds
6. U.S. Treasury bills

My goal was to prove (or disprove) that buying the top ranked instruments easily beat buy and hold investing. To put a stake in the heart of any would-be doubters, I needed to go as far back in time in my scientific test...in this case, I went all the way back to 1926.

That included the Great Depression, World War II, the stagflation of the 70's, the booming 80's, and of course the Great Recession of 2007-2009 among others. Here are the results of buying the top two assets ranked by percent gain over one and six months periods (so buying assets that were going up the fastest):

Isn't that shocking? Basically, doing the opposite of Warren Buffett makes money and keeps you out of trouble such as the 90% decline in the stock market back in 1929-1931. If you lose 90%, you have to make 1000% just to get back to break-even! Keep in mind that Buffett lost 56% in the 2008 crash. He wasn't able to magically escape it.



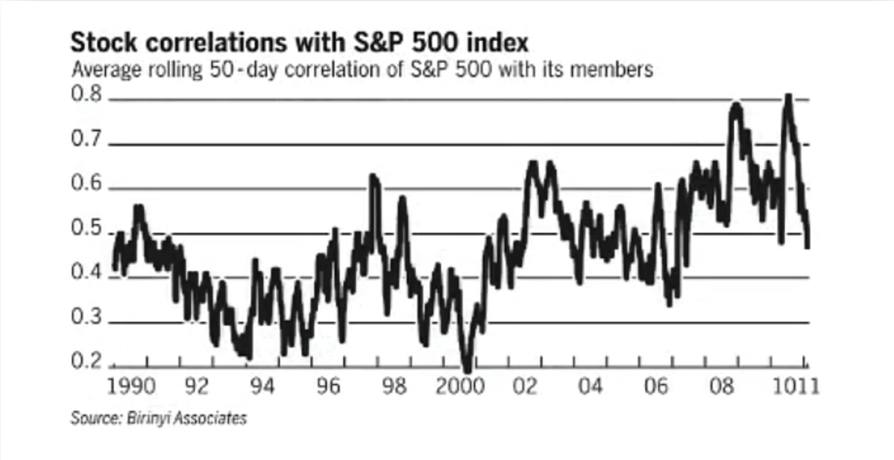
In this example, I showed that buying the assets with the highest percentage gains (aka momentum) led to further gains. In later years I discovered that you could rank a stock on many, many over criteria besides momentum. You could rank by volatility, anti-momentum, RSI, correlation, time above a moving average, etc, etc. The sky is the limit.

What certainly rings true and is generally universal is that ranking by momentum works just as good now as it did in 1926. What this technique now does is laser-focus your list from over 500 stocks to just 5, 10, 15, or 20 depending on your particular risk tolerance and account size. Think about it, we just went from 6000 stocks to 10. Now doesn't that sound a lot easier to manage?

THE BLACK SWAN ORIGIN

"Black swan" events are by their nature rare, but they can wipe out months or years of gains, and cause needless fear and anxiety. They come seemingly out of nowhere...or do they?

Financial guys make way too much fuss about being "diversified." Here's what they fail to realize: When the stock market crashes, it brings down almost all stocks. Diversity doesn't matter at those times. When you check out the following chart of stock correlations with the S&P 500 index, you'll see that stocks became highly correlated during the bear markets of 2000-2002, 2008-2009.



As a Part-time Market Maker, there are times when you should walk away and actually STOP making a market. The large Market Making firms actually shut their computers off after Fed meetings. Their odds of success go down, so why bother trading?

That's why Part-time Market Makers keep an eye on the major indices like the S&P 500, Dow Industrials, Transports, Russell 2000 and more. When one of them starts making new lows, it's best to stop making a market in ANY stocks. Remember, there is no such things as diversity in a bear market.

What's interesting about this rule is that it actually hurts annual growth rate a bit. But as a Part-time Market Maker, we're interested in staying in the game and not downing Pepto Bismol for breakfast.

By definition, a Black Swan event is something you never or rarely see in your back test of your trading strategy.

It comes from the story of Dutch explorer Willem de Vlamingh who discovered black swans in Australia. As far as they were concerned in Europe, all swans were white. There wasn't a single case of a black swan. But just because you've never seen something doesn't mean it can't happen.

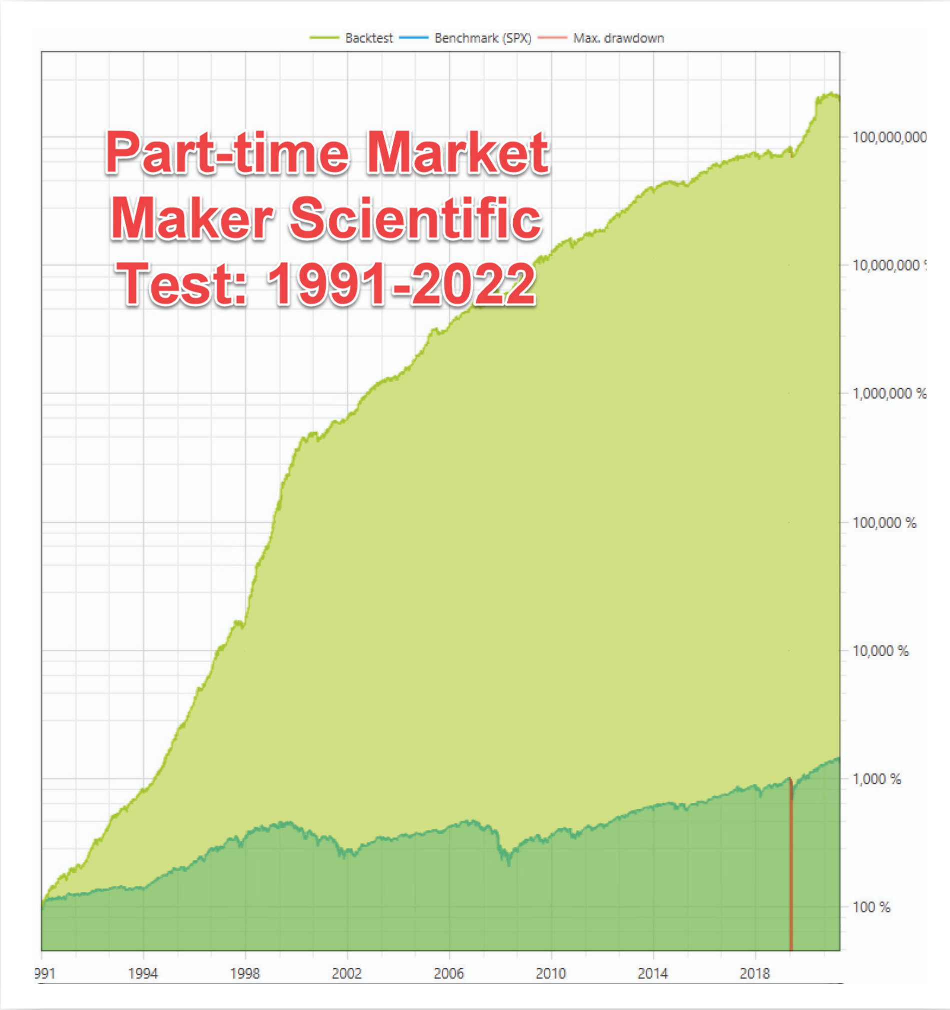
So think of monitoring the market averages as kind of an insurance policy against an unknown event. In 1987, they said the market could never fall as far as it did in one day. They were wrong of course. And hey, my last name is Murphy...as in Murphy's Law: "Anything that can go wrong will go wrong."

PUTTING IT ALL TOGETHER

Here's what you've learned so far:

- The key to trading like a Market Maker
- How to spot price anomalies.
- The Balance Zone to place your limit order
- The Hook, and how you want to go against the crowd on "confirmation"
- Narrowing your focus and making a market in only the cream of the crop stocks
- Black Swans and knowing when to walk away

Now let's put everything we learned today and run a historical test from 1991 to 2022 using a maximum of 10 stocks. We get an annual growth rate of 59% with a maximum drawdown of 17%. Not bad considering we're just placing a handful of limit orders every day. There are even ways to automate the whole process with certain brokers to save yourself from order entry.



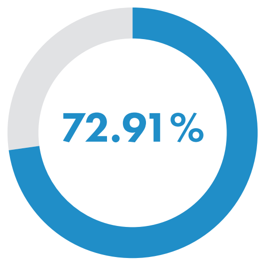
While I can't promise that you'll make 59% or more over the next year, I can promise that everything you have reads today has been validated with a computer. I like to go the extra mile, so I setup a test that could hold as many as 500 stocks at once. Over 150,000 price anomalies were detected over a period of 28 years, making this the most rigorous technique I've ever tested. And more importantly, it was put in the line of fire with real money on the line since 2017.

Years ago, I used to publish my monthly trade statements, along with a sworn statement from a CPA that my results were true and accurate. It cost me a fortune to certify my track record. Yet people would believe I was some sort of super-human trader, and born to trade. Nothing could be further from the truth. I failed the first several years of this business. I was part of the 96% who lost money.

So what I did was personally teach a group of salt of the earth folks my trading techniques. All they had to do was follow the trade signals generated by our software. They've been kind enough to give me testimonials, and more in-depth case studies.

Here's one from Steve Crowther:

"Last Year I Made 72.91%. I'm Making too Much Money



Steve Crowther

"I came across Dan Murphy while surfing the internet. He made a lot of sense – Test don't guess. Use the computer to make your decisions. I followed him for months before I bought Portfolio Boss [software] in 2014.

I tried many services before Dan, some were good, but most were worthless, and none of them seem to be worth the money they charged. Portfolio Boss took all the anxiety, worry and guess work out of making trades. Using the computer and backtesting strategies made sense – Tested analysis. Portfolio Boss has allowed me to find the strategies that fits me and my trading style.

I'm retired and only trade as a hobby, but a very profitable hobby... Last year I made 72.91% in trading thanks to [Dan's group]. My biggest concern with PortfolioBoss are taxes. I'm making too much money. The Government seems to want a large share of it . . . lol.

CONCLUSION

If you're near retirement age, the Akrasia Effect has likely cost you millions. We ALL suffer from it in one way or another.

Victor Hugo is by all accounts one of the most famous French writers. You might have read or watched Les Miserables. Instead of hammering away at his new book, he fiddled around and partied all the way to the 1-year deadline. As you might imagine, the publisher wasn't too please, and gave him an ultimatum: 6 months to complete the book OR ELSE.

What he did next was shocking...

He had his assistant lock up all his clothes into a trunk...minus a large shawl that he would wrap around his body. That way he would be embarrassed to go outside and hobnob with his buddies. He put his nose to the grindstone and wrote day and night until...he had completed The Hunchback of Notre Dame with two weeks to spare.

So why did he put things off for an entire year and then resort to such extremes to get it done? Instant gratification is incorrectly valued more than long-term results. That's why Victor put off writing a literary masterpiece until the pain of losing his publisher became too great...or why we sneak in a cookie or two or three before the pain of being unable to button your pants becomes unbearable (or worse yet...health problems bubble to the surface).

The ancient Greeks had a word for it:

Akrasia: the state of mind in which someone acts against their better judgment through weakness of will. Clearly we all suffer from it...I know it has personally cost me tens of millions.

So how do we conquer the Akrasia Effect? It turns out that the hardest thing about completing a project is starting it. There's a simple shortcut: Start with a micro-commitment -- something that's incredibly easy to do.

For example, when I'm feeling lazy and I don't want to go to the gym, I'll put on my workout clothes. Now I'm in a constant state of pain because I'm reminded that I need to haul my lazy boo-tay to the swoll farm.

THE REAL REASON YOU'VE BEEN MISSING OUT ON THIS NEW REVENUE SOURCE...

I recently did a subscriber survey where 28% of respondents told me that they had no time to bolt on a new revenue source... even though they could literally start making money in the time it takes to watch a show on Netflix.

We all know that the real reason isn't time: It's akrasia.

And what's our shortcut to get start?

A micro-commitment.

Guess what? You've already made a micro-commitment by getting to the end of this special report. Now you can get involved with Part-time Market Making as a new revenue source instead of "maybe one day"...

Now your future self has the potential to bolt on this weekly source of revenue...

...and you didn't even have to lock yourself in a room for six months in your underwear.

ADDITIONAL RESOURCES

If you'd like my help and additional resources for Part-time Market Making, as well as dozens of case studies, I invite you to watch this short video:

https://portfolioboss.com/mm-secrets

Trade smart,

Dan Murphy

Government required disclaimer: The results listed herein are based on hypothetical trades. Plainly speaking, these trades were not actually executed. Hypothetical or simulated performance results have certain inherent limitations. Unlike an actual performance record, simulated results do not represent actual trading. Also, since the trades have not actually been executed, the results may have under (or over) compensated for the impact, if any, of certain market factors such as lack of liquidity. You may have done better or worse than the results portrayed.