Portfolio Boss

Amazing Fact:

THE GHOST OF BERNIE MADOFF IS NOT YET DEAD

(And He's Bleeding Your Trading Account Dry)!

Here's How to Banish His Scam and Put More Money Back in Your Pocket...

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In the 1999 Classic Comedy "Office Space" a hypnosis enlightened office worker gets fed up with his commute, fed up with his idiotic bosses, and fed up with getting shortchanged in life.

Sound familiar?

So he finally decides to stick it to the man.

His plan is to install a computer program that redirects fractions of pennies into "an account on the side", and use the money to stop working forever.

"It's only fractions of pennies. It's a rounding error. Nobody from corporate accounting will ever notice."

Fast forward to next Monday, and it turns out those fractions of pennies added up to $305,256.23 in ONE weekend!

"Somebody will definitely notice!" He says.

This is exactly how payment-for-order-flow works, and 99% of retail traders have no idea they are being ripped off in almost the exact same way.

The list of brokers who allow this to happen to you is quite large.

That should make you wonder...

Is Your Broker Ripping You Off?

Odds are your broker is sending your orders to high frequency traders who skim and scalp your trades in exchange for millions in "kickbacks."

It's possible your broker and HFT's are in cahoots against you, siphoning your profits right under your nose.

How do you know if YOUR broker engages in payment-for-order-flow?

That's an important question, because **PFOF can cost hundreds of dollars per trade in a fast moving market.**

At 100 trades per year, that could be $10,000.

At 500 trades per year, that could be $50,000.

You can buy a lot with $50,000.

You can buy a brand new F-150, or a 6 month stay in Paris.

As you can see, this money really starts to add up.

I wonder if your broker is ripping you off?

You want the lowest commissions of course, but did you know that payment-for-order-flow can cost 6 times the price of commission!?

Here's the weirdest part. Installing that program in “Office Space” was definitely illegal.

But not only is payment-for-order-flow NOT illegal...it's standard practice.

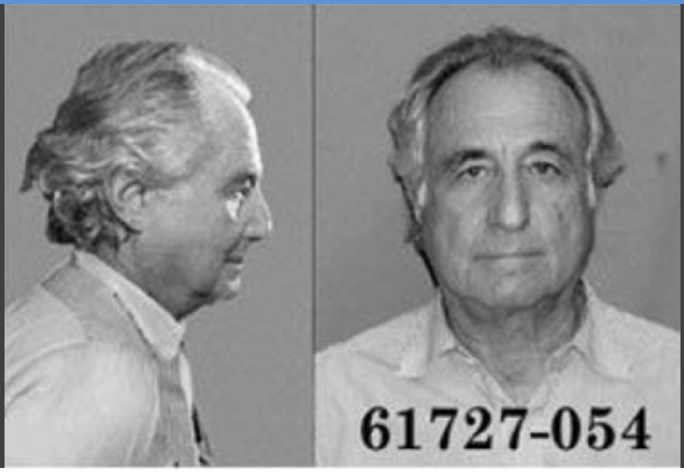
In Office Space it's a crime, but in trading it's not?

Why is that?

Who could be responsible for this very questionable practice?

Who has historically thrived in the financial gray area for profit?

It's none other than Bernie Madoff himself.



Yes, that Bernie Madoff.
His wily schemes are still alive today, and...

They're Bleeding Your Bank Account Dry

Designed and implemented in the 1980's, as financial tech was rapidly changing the game, Bernie Madoff initiated the buying and selling of order fulfillment in exchange for pennies per share.

Basically, thanks to gigantic volume, Bernie Madoff could just skim a little from all the orders, and most people never seem to notice.

It's a rounding error.

Just like in Office Space, these fractions of pennies accumulated into serious money.

Sums far more serious than $305,256.23.

More like $490 million at just ONE brokerage last year.

I'll reveal the name of that brokerage in just a minute (After all if it's YOUR brokerage you will definitely want to know!).

Justification for this practice varies as greatly as the hidden agendas of the pundits spewing it.

If it's profitable for them, they've got a reason to support it. If it's detrimental to them, they've got a reason against it.

Expecting the teacher to patrol the playground?

The SEC only seems to fine brokers who haven't disclosed they accept PFOF properly, but does not fine the practice itself.

Payment for Order Flow

As a way to attract orders from brokers, some exchanges or market-makers will pay your broker's firm for routing your order to them – perhaps a penny or more per share. This is called "payment for order flow." Payment for order flow is one of the ways your broker's firm can make money from executing your trade. The firm can also make money by internalizing your order.

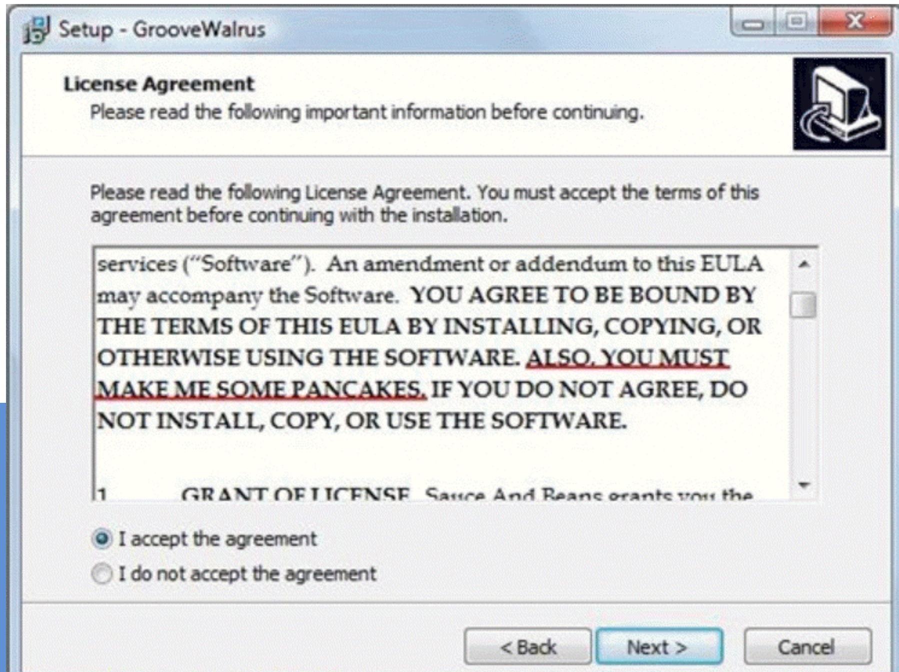
Upon opening a new account and on an annual basis, firms must inform their customers in writing whether they receive payment for order flow and, if they do, a detailed description of the type of the payments. Firms must also disclose on trade confirmations whether they receive payment for order flow and that customers can make a written request to find out the source and type of the payment as to that particular transaction.

To learn more about the basics of trade execution – including order routing, payment for orde and internalization – you should read Trade Execution: What Every Investor Should Know.

Screen Capture from SEC.GOV

Basically, it's okay as long as they don't hide it.

But come on...who reads those long user agreements written in fine print?



"You must cook me pancakes."

There is even an argument that it's not a cost to the trader at all. They say it's a net benefit. Please.

Why pay billions in legal "bribes" to brokers every year if there's no benefit?

This is supposedly the tradeoff of "better fulfillment", which could be lower price, or faster execution, or greater chance of getting the order filled.

Those that didn't look closely point out that Regulation NMS forces high frequency traders to fulfill your order at National Best Bid Best Offer (NBBO).

Regulation NMS actually CAUSED this whole fiasco.

The problem is that the NBBO quote system -- what you and I see -- is extremely slow compared to the speed of light data HFTs see.

That means they only have to play by the rules when the "referee" is looking every couple milliseconds (thousandths of a second).

HFTs operate in nanoseconds (billionths of a second).

Robbed by The Flash

Imagine playing poker against DC Comic superhero The Flash... he could look at all your cards...the other player's cards...and still have time to pick your pockets before anyone realized what was happening.

When your broker sells their order book to HFT firms, and if they see a flood of buy orders coming into the market, they can simply pull their offers before the NBBO gets updated.
Take a look at the red line in the middle of these graphs:

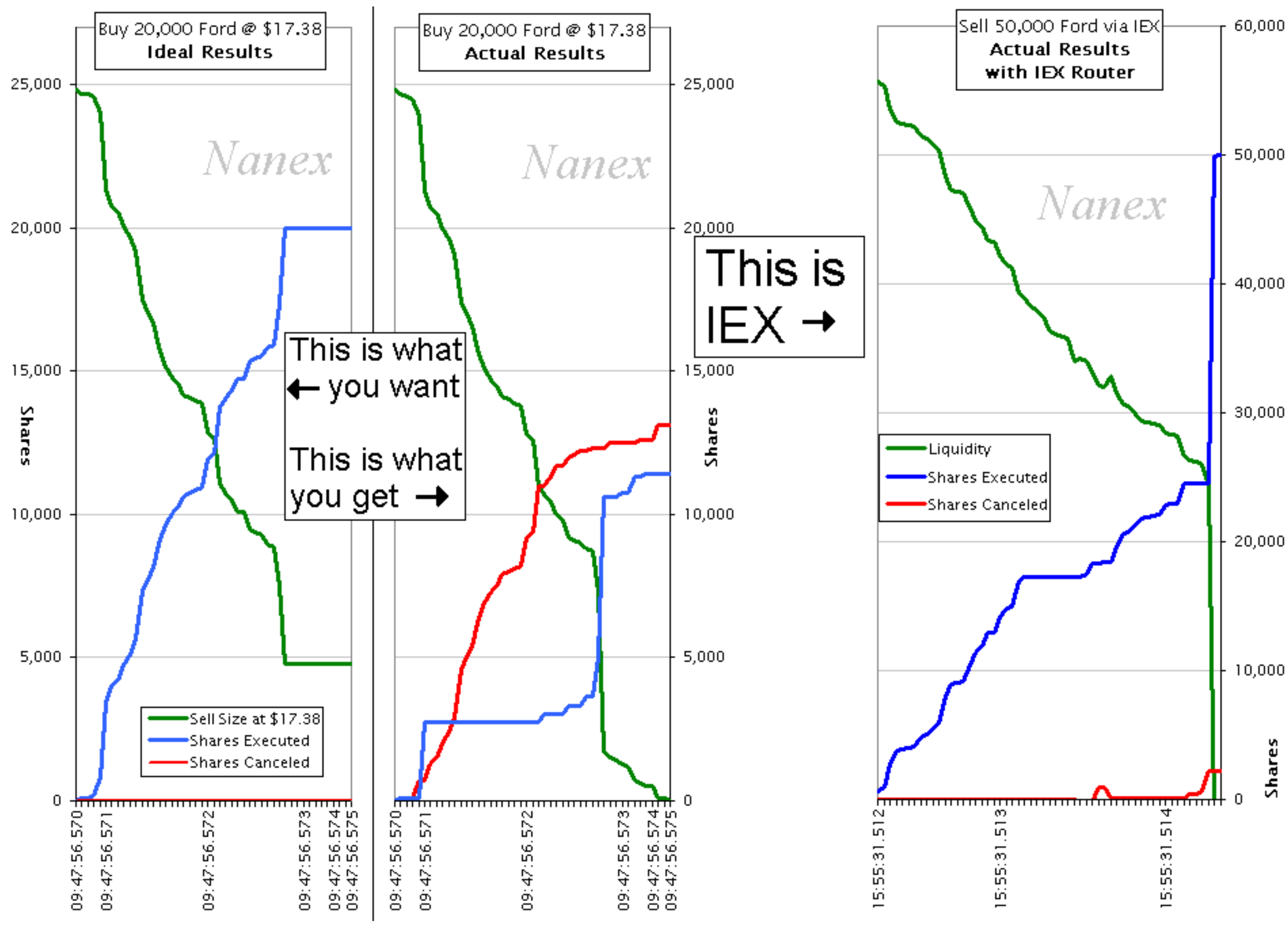


Chart courtesy Nanex

The red line shows a rapid rise in cancelled shares (in less than 1ms) as HFT firms sniff out there's an order to buy 20,000 shares of Ford.

The liquidity they offered is just an illusion, and the price of Ford rapidly advances, resulting in a horrible fill price for the buyer.

You might be thinking "I'm not trading 20,000 shares of stock."

I get it.

The problem is that you and hundreds of other traders often act in unison even if you don't know you're doing it.

That's why HFTs are paying billions in "kickbacks" to brokers for their order books.

That's just one example. They employ dozens of strategies to get a piece of your order.

Typically these trades last from 1-2 milliseconds, which for a computer is ample time to make pennies per share on your order.

That's best case scenario, but what about worst case scenario?

Worst case scenario is...well... it could add up to 10, 15, or 30 cents per share for every single trade in a fast market.

And let's face it, **when your stop is hit, it's almost always in a fast market**.

Did you know you could be paying these hidden fees?

If you're trading 100 shares, that could be as high as $30 per trade.

That's 6 times more than a $4.95 commission!

People seem so worried about getting the best commission, but **they're paying up to $30 in hidden** *fees per trade!*

That's like stepping over dollars to pick up dimes.

But It Gets Worse

If you traded every market day of the year, that's almost $7,800!

If you were simply trading twice as many shares, 200 a day for example, that would be $15,600!

$15,600! That's like sending one of your kids to college for an entire year!

This is just plain wrong. It shouldn't be allowed.

Who are the culprits?

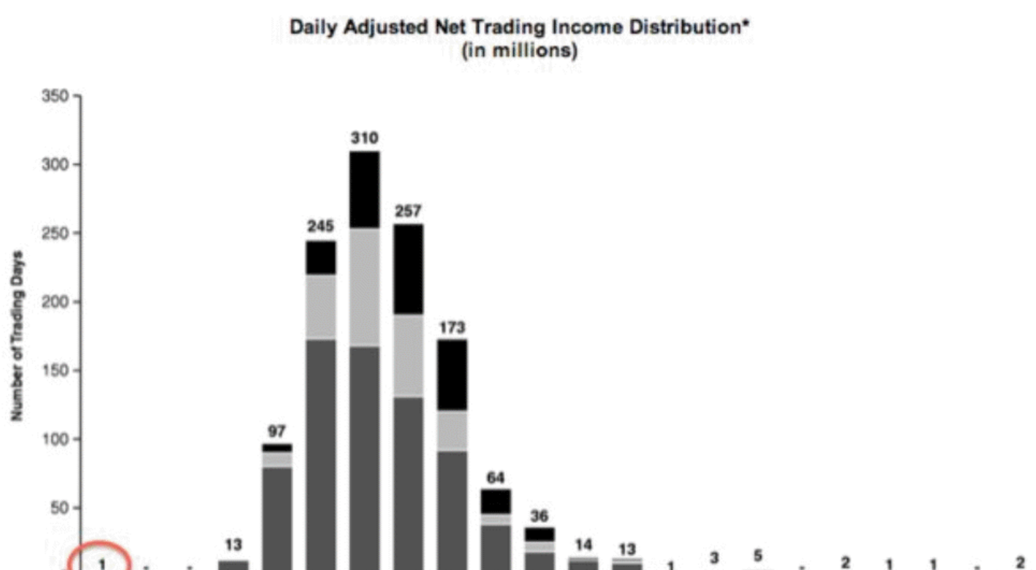
Well, Citadel is one of the biggest high frequency traders in the game.

That's right, HFTs. They're the leeches who are paying the brokers for your order flow.

Charlie Munger, Warren Buffett's business partner, calls them "rats in a granary," and "evil." And guess what, they make billions every year from this Office Space style thievery.

How else do you think they could have 99.92% winning days?

Just check out this graph from an HFT named Virtu. Out of 1,238 trading days, they only had one single losing day -- and it was due to human error!



	< $0.0	$0.0 to $0.3	$0.3 to $0.5	$0.5 to $0.8	$0.8 to $1.0	$1.0 to $1.3	$1.3 to $1.5	$1.5 to $1.8	$1.8 to $2.0	$2.0 to $2.3	$2.3 to $2.5	$2.5 to $2.8	$2.8 to $3.0	$3.0 to $3.3	$3.3 to $3.5	$3.5 to $3.8	$3.8 to $4.0	$4.0 to $4.3	$4.3 to $4.5	$4.5 to $4.8	$4.8 to $5.0	> $5.0
2013	-	-	-	1	7	26	57	67	53	19	11	2	2	-	1	1	-	-	-	-	-	-
2012	1	-	-	-	10	46	85	59	28	7	7	-	1	-	-	-	-	-	-	1	-	-
2009-2011	-	-	-	12	80	173	168	131	92	38	18	12	10	1	2	4	-	2	1	-	-	2

The greatest athletes in the world never come close to 99% anything, so how could anyone do that in trading without cheating?

Newsflash! They're cheating! With YOUR money.

It's not illegal, but they've obviously rigged the game in their favor.

If That's Not a Scam, Then Mother Teresa Was an Atheist!

I for one have had enough.

Do you think there's nothing we can do to stop this?

Right now it's time to name names and rat out these "sneaky, greedy" brokers who accept payment-for-order-flow.

And here they are, for all the world to see:

Broker	PFOF Equities	PFOF Options
Ally Invest	Yes	Yes
Charles Schwab	Yes	Yes
ChoiceTrade	Yes	Yes
Cobra Trading	**No**	**No**
E-Trade	Yes	Yes
Fidelity Investments	**No**	**No**
FirstTrade	Yes	Yes
Interactive Brokers	**No**	**No**
Just2Trade	Yes	Yes
Lightspeed Trading	Yes	Yes
Merrill Edge	**No**	**No**
Robinhood	Yes	Yes
SogoTrade	Yes	Yes
SpeedTrader	**No**	**No**
TD Ameritrade	Yes	Yes
TradeStation	Yes	Yes

Source: Stockbrokers.com "Best Brokers for Execution" April 1st, 2019

Is your blood not red hot yet?

You might be saying to yourself, "Okay, they sell my order flow. But how bad can it be? Is this really costing me THAT much money?"

Great question.

Take a look at this.

IHS conducted an **independent** study of Interactive Brokers' trading prices in the last half of 2018...

By the way, Interactive Brokers does not accept payment-for-order-flow.

They determined that "Interactive Brokers' US stock price executions were significantly better than the industry's during the second half of 2018."
How much better?

US Equities Execution Price Improvement Comparison*	
	Net US Dollars (per 100 shares)
Interactive Brokers	$0.58
Industry	$0.06
IB Advantage	$0.52

Net US Dollar Price Improvement vs. Industry Bid / Offer [1]

*Based on independent measurements, IHS Markit, a third-party provider of transaction analysis, has determined that Interactive Brokers' US stock price executions were significantly better than the industry's during the second half of 2018. [2]

On average 52 cents per 100 shares!

We all trade different amounts, but I encourage you to do the math on how many shares you have traded with your broker recently.

Here's a recent headline from the Wall Street Journal concerning PFOF and TD Ameritrade:

Judge Rules Class-Action Lawsuit Against TD Ameritrade Can Proceed

Plaintiffs allege the discount brokerage prioritized its profits over their best interest on stock transactions

TD Ameritrade received $490 million in PFOF in 2018 alone.

That's a whole lot of temptation!

Now is there any doubt that HFT's and payment-for-order-flow is costing you money?

The good news is, it's totally preventable.

If you're not using SpeedTrader, MerrillEdge, Fidelity Investments, Cobra Trading, or Interactive Brokers then...

It's Time to Switch!

And while you're switching, I strongly recommend Interactive Brokers (I'm not affiliated with them in any way).

Here's why: **they do not secretly charge you outrageous sums for payment-for-order-flow (see chart above)...**

...They also have built in technology that enables you to **beat the HFT traders at their own game...**

They have ways to help you **cloak your trading activity**, like a Klingon Starship.
It's almost like invisible trading.

It's a really simple yet effective way we can make sure WE don't pay those HFT taxes...

Does This New Exchange Prevent HTFs from Ripping You Off?

In Michael Lewis' book, *Flash Boys*, the hero of the novel was Brad Katsuyama, a trader at the Royal Bank of Canada.

Brad had noticed that he was getting horrible fills on the orders he placed. He would see an offer to sell 10,000 of Intel, yet when he went to buy the full 10,000 shares, the stock would rise dramatically as soon as he pressed execute on his terminal.

The HFTs were scalping him alive (along with everyone else).

They ended up building a computer program called "Thor" to thwart the HFTs. They did so by slowing down their orders by the amount of distance between all the exchanges.

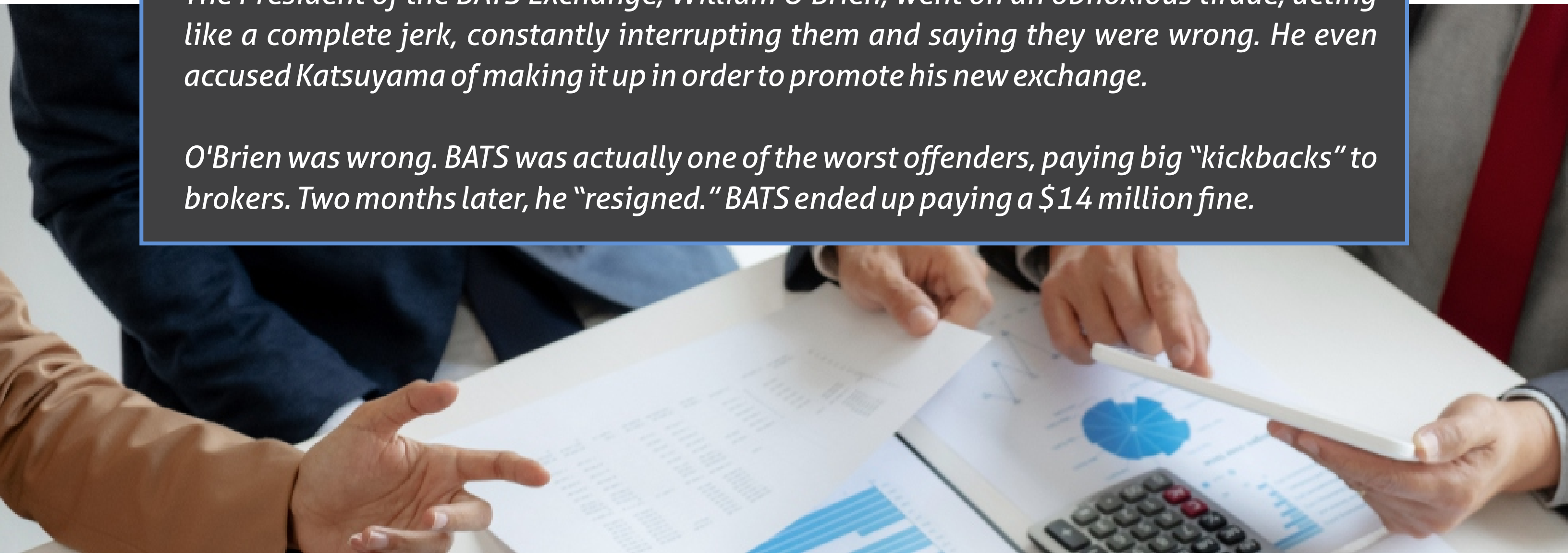
Why did the distance matter? Why slow down? Because of the speed of light. Light takes longer to go longer distances, so the HFTs could pinpoint exactly where the order was coming from and race ahead of his order to shave off pennies and dimes! It's like his order left a trail of bread crumbs as it went from exchange to exchange. Sneaky.

Eventually, Brad ended up leaving RBC to start a new exchange called IEX.

Quick aside: *Brad and the author of Flash Boys, Michael Lewis, went on CNBC to talk about the HFTs and their shenanigans. The scene that happened next is legendary in the trading world.*

The President of the BATS Exchange, William O'Brien, went on an obnoxious tirade, acting like a complete jerk, constantly interrupting them and saying they were wrong. He even accused Katsuyama of making it up in order to promote his new exchange.

O'Brien was wrong. BATS was actually one of the worst offenders, paying big "kickbacks" to brokers. Two months later, he "resigned." BATS ended up paying a $14 million fine.



IEX has miles of fiberoptic cable in a box to intentionally delay access to incoming and outgoing messages by 350ms.

In effect, this kills the chance for HTFs to make a profit off the backs of other traders. No more skimming.

You can send your orders to IEX using Interactive Brokers. They're still small (about 2.6% of market volume), but they could save you a lot of money in hidden HFT taxes. By the way, Interactive Brokers was the first company to list on the IEX. Birds of a feather flock together.

Interactive Brokers routing to IEX

Conclusion

While I am grateful that books like *Flash boys* and *Dark Pools* were written. And movies like *The Hummingbird Project* were made and exposed the ludicrous HFT game, the truth is that not one of them said more than a sentence about the fact that most brokers are receiving "kickbacks" from HFT firms to front run your orders.

I understand that in entertainment, you need to have a struggle between the hero and a villain. Luke needed Darth Vader. Sherlock Holmes needed Moriarty. Austin Powers needed Dr. Evil. A struggle between everyday folk and their broker selling them out isn't as sexy I suppose.

But what about the little guy? What about the millions of investors that have no clue that they are being served up on a silver platter to the Wall Street meatgrinder? Where's our story?

The best way to fight the machine is to vote with your money. Move away from brokers who accept payment for order flow to those who don't. Hit them where it hurts most – their wallet –only then will they listen.

Do me a favor and spread this message far and wide. Tell your friends and colleagues. It's time to say enough is enough. It's time for change.

Thank you for reading!

Trade smart,

Dan "Price of Proof" Murphy
Founder, PortfolioBoss Inc.

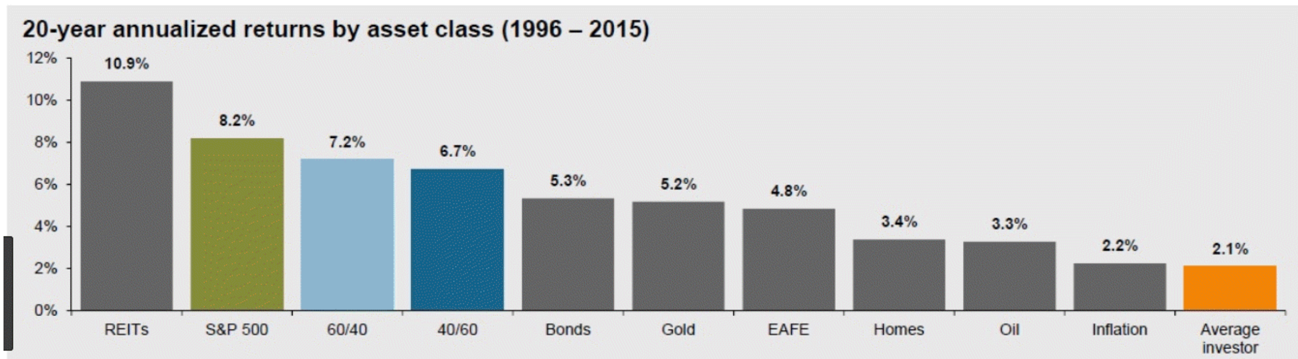
P.S. If you're a self-directed investor that's sick of being screwed by Wall Street, then I have a tool that can take back the money these Wall Street fat cats have been stealing from you.

I run a software company that secretly began developing a tool that <u>automatically</u> builds trading strategies using the latest in machine learning techniques. It's like having millions of programmers slaving away 24/7 at their keyboards to discover the most profitable trading strategies for you.

It's similar to what the HFTs use to predict prices. However...

While this is an advantage over other traders, it's not an unfair advantage like the HFTs. Don't worry, you don't need to have a PhD to use it.

The vast majority of retirement accounts are underfunded, with the average gain of a measly 2.1% -- less than the rate of inflation as you can see from the chart below:



Source: J.P. Morgan Asset Management; (Top) Barclays, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.

With all the hands in your pockets robbing you blind, it's no wonder why investors are underperforming so badly. Here's how you can stick it to all the Bernie Madoff's of the world, and put your future in your own hands.

As an added bonus for downloading and reading this report, I'd like to invite you to a free demonstration to watch me build another "weird" strategy LIVE with The Boss "SuperAi." Just follow this link and register for this live training event:

https://portfolioboss.com/go/superai

TradeSmart,

DanMurphy

P.S. I'm planning on building a strategy for trading the VIX index.

The VIX makes money when stocks go down, so it's a perfect strategy to add to your arsenal.

Imagine not just making money in down markets, but absolutely cleaning up! Join me at this link...seating is limited so show up early:

https://portfolioboss.com/go/superai