

The Secret of Dark Pools and How to Profit

Recently I sat down with Jason Bodner, a former Wall Street trader who manages our *TradeSmith Investment Report* and his unique *Quantum Edge Pro* trading service.

I quizzed Jason on what he sees in store for markets in 2024 and which sectors and stocks have the strongest “Big Money” flows where institutional investors are piling in. One of the most eye-opening aspects of his Quantum Edge research is how Wall Street goes out of its way to hide their tracks.

They use secretive, off-the-radar methods to conceal their billion-dollar investments that move markets. As Jason puts it, you would think that Wall Street’s massive billion-dollar trades would be simple to spot. But they aren’t because they “hide” these big trades in private networks called Dark Pools.

And Jason just put the finishing touches on a research presentation that blows the lid off of this practice. Plus, he details how his Quantum Edge analysis can level the playing field for investors by exposing Wall Street’s best-kept trading secrets.

Here’s a peek behind the curtain.

Mike Burnick: Jason, tell us what lengths Wall Street firms go to conceal their best trade ideas from ordinary investors?

Jason Bodner: Well, my old job of running a trading desk at Cantor Fitzgerald matching institutional buyers and sellers gave me a unique vantage point to see just how Big Money operates – which is basically as secretly as possible.

If that feels like it puts you at a disadvantage as an investor – it does. Big institutions account for between 70% and 90% of daily trading volume on the major exchanges, and if you don’t know where those billions of dollars are flowing, it creates this uneven playing field.

But my front-row-seat experience in seeing the Big Money tricks in action helps me balance the odds for investors. You see the Wall Street elite do everything in their power to operate as quietly as possible so as not to tip their hand and move prices against them.

These firms move under the radar, trading in “dark pools” – secretive and tightly controlled exchanges where what they buy, how much they buy, and even the price they pay, is simply not publicly available.

Mike: It’s no secret that the Wall Street fat cats like to keep secrets. But how are you able to level the playing field and spot these trades?

Jason: I noticed that when huge investors made moves in the markets, tell-tale signals were given off – even if they were made in dark pools or through professionals like me, whom they paid to act as secretly and stealthily as possible.

These signals were like “footprints” that could be tracked. And those footprints let me see when unusual trading was occurring.

Mike: And these trades aren't visible to most investors?

Jason: No, but the data retrieval and analysis models I built showed me when this unusual trading activity was likely taking place.

You might think: *Just look when a stock moved up or down on larger-than-usual volume.* That thinking is on the right path, but there's more to what's going on – and it's not always visible on a chart with volume.

Mike: Can you give us a specific example from your work?

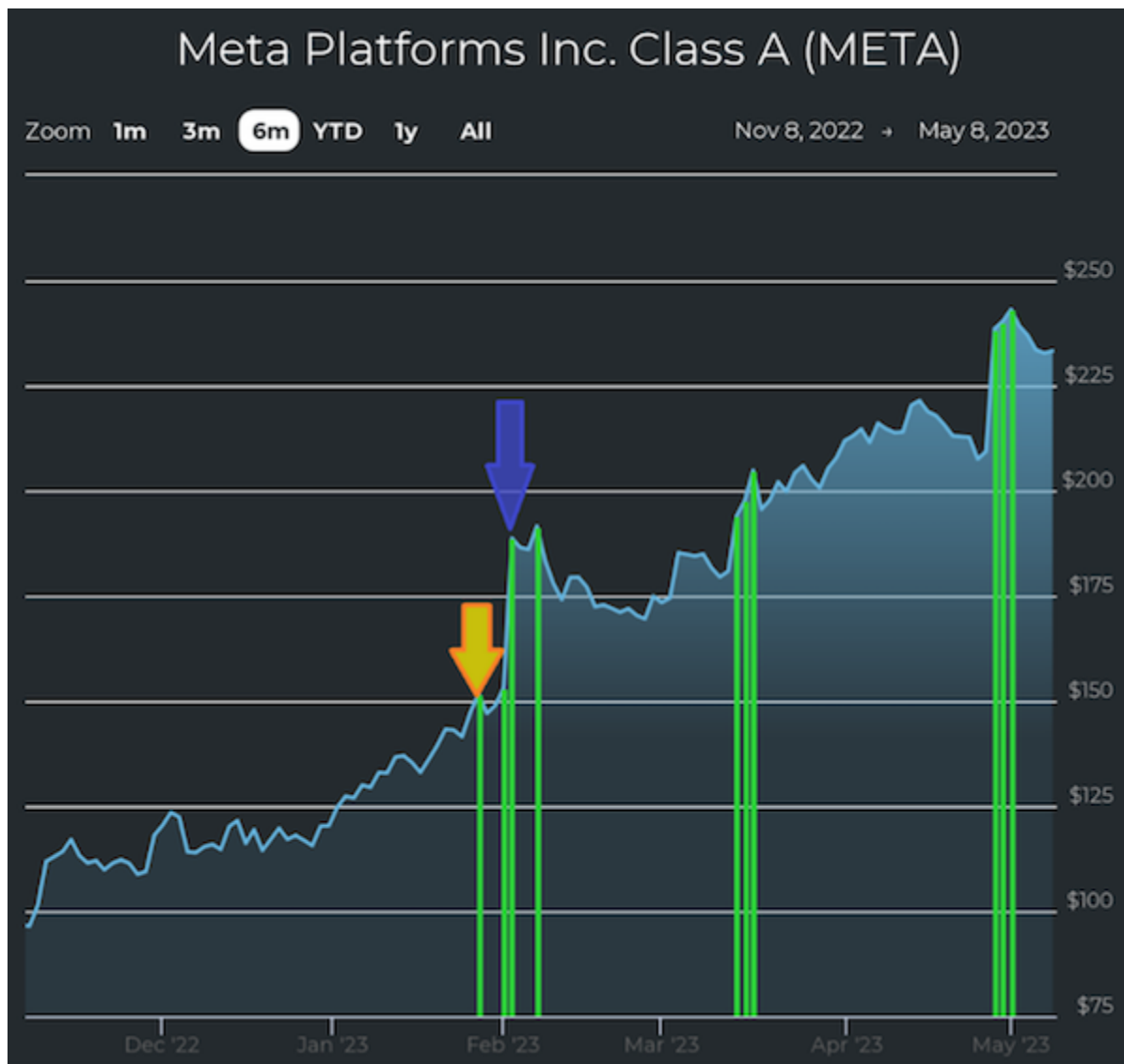
Jason: Sure, just take a look at this stock chart from earlier this year for **Meta Platforms (META)**, the social media giant formerly known as Facebook.



You see a huge gap up in price on a day when there was also huge volume (the bars at the bottom). Investors rushed in to buy META shares, pushing the stock up 23% on Feb. 2, the first trading day *after* CEO Mark Zuckerberg declared 2023 the company's "year of efficiency." Nobody could have seen that coming, right? But – what if you'd received a signal right *before* Zuckerberg made his comment and bought in before the spike?

Mike: You would have cleaned up buying the stock, or better yet META call options if you were in the know.

Jason: Exactly. And the "smart money" seems to frequently sniff out such things before everyday investors hear about it. That was true here. Remember when I said unusual trading activity wasn't always visible on everyday charts like the one above? Well, look now at this chart of META from my Quantum Edge system...



I highlighted that Feb. 2 price spike and huge volume with a blue arrow, the same as on the previous chart. But look at that yellow arrow. That points to Jan. 27, and that green bar is a signal my system picked up of unusual buying in META shares— *a full 5 days before that 23% surge in price.*

Mike: So, when you spot these signals in your system, it's alerting you right away that a major Wall Street institution is buying the stock, perhaps in a dark pool.

Jason: Right, and what almost always comes next is a big surge in the stock price. I may not know exactly *why* these secret trades take place, but it's the *what* that matters most. And that's Big Money buying, which most often drives the stock higher.

Even transactions in dark pools, as anonymous as they are, have to show up on the tape. And knowing what to look for and being able to see where that money is flowing gives us a huge advantage.

Mike: How huge?

Jason: The data shows our system picks stocks that make money roughly 70% of the time, and it outperformed the market 7-to-1 over three decades of data.

Mike: That's awesome, Jason. Thanks, and keep up the good work.

Mike Burnick's Bottom Line: Wall Street's biggest firms have an unfair advantage over the rest of us. Trading in dark pools is one of their biggest tricks. But Jason's Quantum Edge analysis helps level the playing field for us.

Good investing,

Mike Burnick

Senior Analyst, *TradeSmith*

P.S. If you have any questions or concerns, please reach out to me at emailmikeburnick@tradesmith.com and include "Inside TradeSmith" in the subject line.