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Diving Into Dark Pools

78 Pages
Posted: 26 Jun 2010
Last revised: 14 Feb 2022

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Date Written: January 31, 2022

Abstract

We study 2009 and 2020 dark trading for U.S. stocks. Dark trading is lower when volume is low, volatility high, and in periods of markets stress. Dark pools are more active for large caps, while internalization is more common for small caps. Traders use dark pools to jump the queue for large caps in 2009, and to avoid crossing the spread for small caps in both years. Internalization is higher when spreads are wide and depth is high. Dark pool trading improves spreads in 2009, but worsens market quality for large caps in 2020. We discuss explanations for the change.

Keywords: Dark pools, dark trading, internalization, fragmentation, market quality, microstructure

JEL Classification: G10, G12, G14, G18, G20

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