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Volume 63, 2007 - [Issue 3](#)

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Financial Markets

Trading Volume: NASDAQ and the NYSE

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Pages 79-86 | Published online: 02 Jan 2019

Cite this article <https://doi.org/10.2469/faj.v63.n3.4693>

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Reported trading volume matters for two reasons. First, various U.S. securities regulations are based on trading volume. For example, U.S. SEC Rule 144 limits an individual's sales of restricted common stock during a three-month period to either the average weekly trading volume in the stock during the preceding four weeks or 1 percent of the shares outstanding. Second, reported trading volume matters because trading volume is an important measure, for portfolio managers and other practitioners, of a stock's liquidity. Practitioners need to know when trading volume is "real" and when it is overcounted as a result of dealer trades and, therefore, misleading. Moreover, some firms, deciding that reported volume figures in the two markets are now roughly equivalent, have already stopped adjusting for the historical difference in reported volume. We looked for evidence that the way volume is reported has indeed become equivalent in the two markets.



The absence of any basic change in the relative structure of reported trading volume between NASDAQ and the NYSE is a major puzzle in view of the fact that the majority of the trading in NASDAQ-listed securities has been via electronic order books in recent years. One auction market should look much like another, but we see no signs of convergence between NASDAQ and the NYSE with regard to the structure of trading volume.

Notes

- ¹ Newman (1990); Atkins and Dyl (1997); Anderson and Dyl (2005).
- ² The proportion of trades in which the specialist participates tends to be inversely related to the volume of trading in a stock (Madhavan and Sofianos 1998; Bondarenko and Sung 2003).
- ³ We are grateful to Frank Hathaway of NASDAQ for providing this estimate.
- ⁴ Chordia, Huh, and Subrahmanyam (forthcoming) examined the determinants of trading activity.
- ⁵ Informative content has been omitted.
- ⁶ The results are available upon request.



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