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## Night Trading: A New Look at a Market of Opportunity

By Brooks McFeely  
CEO, [Midnighttrader.com](http://Midnighttrader.com)

Brooks McFeely is widely regarded as one of the most knowledgeable sources on extended-hours trading and equity ECNs. He is Managing Partner and Fund Manager for Brochet Capital Partners, LP (Washington DC based Hedge Fund). He is also the founder of [www.midnighttrader.com](http://www.midnighttrader.com), a provider of subscription based extended-hours market analysis and news services for retail and institutional investors.

Once the red headed stepchild of the otherwise viable US equity markets, the after-hours and pre-market sessions (commonly referred to as the extended-hours) have grown up a bit since many investors last paid it any mind. Like children, markets grow, mature and often marry, creating larger and more viable entities. In the case of equity markets, larger translates into more

liquidity which is both the life blood and metric of growth for any capital market. The rapid

consolidation of the electronic markets (ECNs) has helped fuel a marked increase in participation



Brooks McFeely

and trading by both institutions and individuals outside of the regular session. Serious investors take note.

### A Target Rich Environment

The after-hours and pre-market is without question a news driven environment. In other words, the vast majority of trading activity in any given security outside of the regular session is directly related to some corporate announcement or some other newly public information. The primary

*"The primary event driver tends to be earnings, but there are many other commonly occurring events such as analyst rating changes and M&A announcements."*

event driver tends to be earnings, but there are many other commonly occurring events such as analyst rating changes and M&A announcements which tend to spark significant trading activity. For those that are well versed in the off-hours trading markets and for those that have real-time access to after-hours market news services from MidnightTrader.com, many of these events present attractive trading opportunities.

Short and long-term trading opportunities develop after-hours

*“These large participants may be buying or selling an issue for reasons unrelated to recent news such as customer redemptions or portfolio reallocation.”*

due in large part to the presence of liquidity traders who are eager to get in or out of any given position quickly. Extended-hours trading is dominated by liquidity traders (generally large institutions) who

are willing to incur substantial transactions costs to reduce or increase inventory and exposure which they presumably could not do before the end of the regular day session.

Because these participants tend to be buying or selling for reasons unrelated to any new information released outside of the normal trading day, they often provide the much needed contra party liquidity to position traders looking for event driven trading opportunities after the close and ahead of the opening bell. These large participants may be buying or selling an issue for reasons unrelated to recent news such as customer redemptions or portfolio

reallocation. Also present are active hedge funds and individuals looking to take advantage of short term trading opportunities.

### The Risk of Oversight

What used to be described as the wild west of trading” or “a bit like skydiving,” has evolved into something much less hair-raising. The consolidation of several leading electronic markets in recent years has resulted in a much more tradable, less volatile and liquid market environment. With all major online brokers providing their customers with access to the extended-hours, more and more investors are taking advantage of

these markets and the opportunities they often present.

At a minimum, find a trading platform and/or online data source which can provide the extended-hours information tools necessary to stay informed. This tool set should include realtime after-hours news and quotes. More active traders may also benefit from historical after hours analytical services which can provide a predictive guide as to how any given stock has reacted to similar news in the past.

Regardless of whether or not you actually trade outside of the regular session, it’s critically important to recognize the significance of overnight news and resulting trading activity. The majority of the most significant regularly scheduled announcements in a public company’s fiscal cycle are released during an extended-hours session. Earnings announcements, for example, are typically released after-hours and are often a trend changing or confirming events. Some of the largest publicly traded companies can move in double digit percentages on significant volume from the regular close one day to the open the next.

Whether you’re tuning in for

*“Regardless of whether or not you actually trade outside of the regular session, it’s critically important to recognize the significance of overnight news and resulting trading activity.”*

opportunity identification or portfolio preservation, the clues offered by staying abreast of extended-hours activity shouldn’t be ignored. Without further delay, let’s take a look at one of the many event related trading opportunities associated with preopen trading.

## AIQ Opening Bell Newsletter

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While the information in this newsletter is believed to be reliable, accuracy cannot be guaranteed. Past performance does not guarantee future results.

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## A Predictive Tool: Analyst Rating Changes

Among the many regular overnight occurrences, analyst rating changes tend to be among the most followed, regular and impactful as it relates to a stock's future price activity. Almost always issued during the pre-open session, the rating change effect on the underlying security tends to be both valid and significant. However, many investors tend to overlook or simply don't know about the trading activity in the pre-open following a rating change.

Many investors have fallen for the common mistake of assuming an upgrade will result in a price gap up and likewise a downgrade a gap down at the open. The first and most immediate value presented by having knowledge of pre-market news and trading activity is that there is rarely a price gap in either direction. In other words, there tends to be orderly pre-market trading leading up to the opening bell which is nearly always misrepresented in the financial press as a gap in price.

Let's take a look at an upgrade of Goodyear Tire (GT) issued in the pre-market by Deutsche Securities from buy from hold. Following the upgrade, roughly 600,000 shares traded, representing over 10% of GT's average total daily trading volume. In summary, the stock closed the previous regular session (prior to the upgrade) at \$21. Following the upgrade, most of the 600,000 shares were traded in the pre-market session between \$21.30 and \$21.50, well below what would be that day's regular session closing price of \$22.80. (see figure 1 below). Buyers in the pre-market had plenty of time to pick up shares of this tire manufacturer at very attractive prices before the open.

In addition to stock and event



Figure 1. Goodyear Tire and Rubber (GT) one minute price bars pre market trading.

specific history, price and volume must also be considered in determining valid pricing following any event related trading activity in the off-hours. Not unlike the well known technical pricing rule in regular session trading, light trading volume and low liquidity tends to increase the degree of mispricing. In the Google example, only about 3 percent of GOOG's total daily volume was traded before the open. Clearly enough liquidity for most participants to enter or exit a position, but not enough to validate the price move.

## A Mainstream Market

Investors shouldn't wait any longer to get connected with extended-hours trading news and information. With off-hours trading having been adopted by mainstream brokers and traders - and even the smaller ones - liquidity and opportunity are present and growing after the close and before the bell. While extended-hours trading promises greater opportunities and

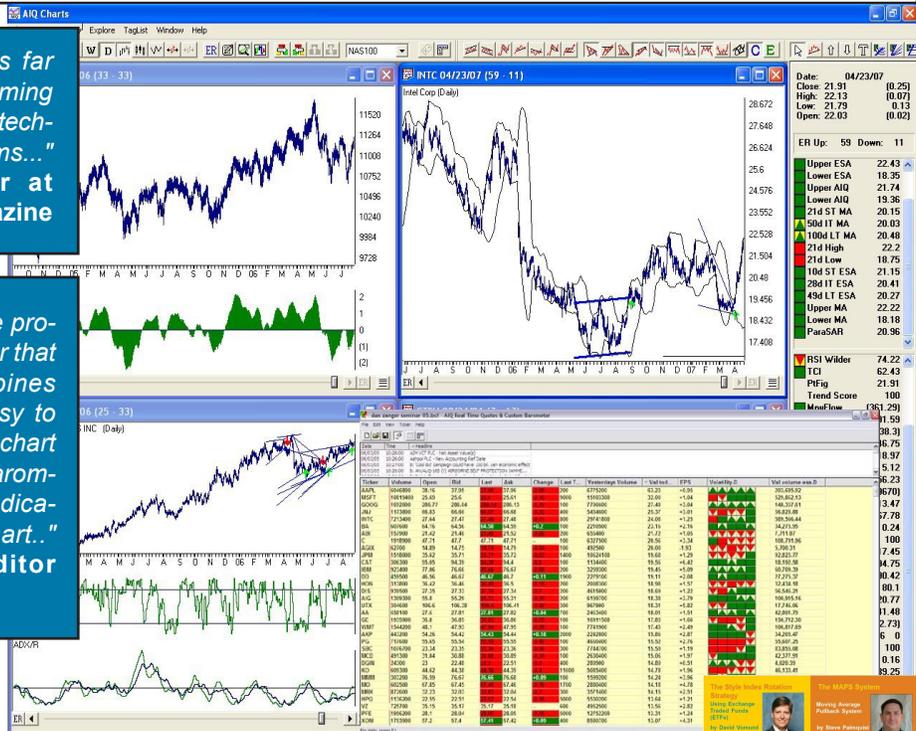
convenience for investors, it also carries risk. However, these risks are not unlike those of trading in the equities markets at anytime of day, regular session included. With knowledge of market structure, access to real-time information and a well developed strategy, you'll be able to mitigate much of the risk and profit from it.

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# AIQ TradingExpert Pro - Still the world's most intelligent trading software

"...the screening language is far less difficult than the programming language used with many other technical analysis software programs..."  
**David Penn, Staff Writer at Stocks & commodities magazine**

"....The charting function of the program is excellent. It is no wonder that Dan Zanger likes it. It combines stunning graphics with an easy to use interface. It displays an on-chart indicator library with a Color Barometer to give you an instant indication of the status of each chart..."  
**Larry Jacobs, Editor Tradersworld magazine**



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## STOCK DATA MAINTENANCE

The following table shows stock splits and other changes:

Stock	Ticker	Split	Approx. Date
Monarch Finl	MNRK	6:5	11/01/07
Actuant	ATU	2:1	11/08/07
Carpenter Tech	CRS	1:1	11/15/07
IDEXX Labs	IDXX	2:1	11/26/07
Dominion	D	2:1	11/16/07

## S&P 500 Changes

Changes to the S&P 500 Index

### Additions:

- Transocean Inc. (New) RIG
- American Tower Corp. AMT
- Manitowoc Co. MTW
- Pepco Holdings Inc. POM

### Deletions:

- Transocean Inc. (Old) RIG
- ALLTEL Corp. AT
- Tektronix Inc. TEK
- Manor Care Inc. HCR

AIQ updates the S&P 500 groups and sectors on a regular basis, to find out more visit

<http://www.aiqsystems.com/lists.htm>

## Eight Great Volume Scans

I have a trading tool box with a number of different scans including a variety of pullback, pattern, and volume related scans. As we know volume measures the interest or pressure behind a move. Stocks that show certain accumulation patterns or sudden increases in volume will often set up at some point in tradable patterns such as pullbacks and flags. These scans are an integral part of my trading, and for the first-time I'm going to share eight of these scans with you. These volume scans use eight different techniques to find stocks that have strong volume patterns that may indicate interest in a continuing move.



Steve Palmquist

These are eight scans included in this package

- High Positive Volume
- Strong Closes Increasing Volume
- Strong On Increasing Volume
- High Negative Volume
- Weak Closes Increasing Volume
- Volume Dry Up
- Volume Increasing
- Weak On Increasing Volume

PLUS

Included with these 8 exceptional scans is Steve's Eight Great Volume Scans Guide

Price ~~\$377~~

**\$249** +shipping

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[www.aiqsystems.com/palmquistaddon.htm](http://www.aiqsystems.com/palmquistaddon.htm)  
or call 1-800-332-2999 x115

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## Percent Pullback Scans

The 'Percentage Pullback Scan' package offers four powerful scans. There are two long pullback scans and two short pullback scans; that look for percentage pullbacks in either up trending or down trending stocks. The difference between the two long scans is that one uses a moving average of the NASDAQ for timing and the other doesn't. It is the same case for the two short scans, both are identical except one uses a moving average for timing and the other does not.

- There are four scans in this package
- Retrace PCNT setup Long
- Retrace Long with QQQ filter
- Retrace Short Setup
- Retrace Short with QQQQ filter

PLUS

Included with these 4 exceptional scans is

Steve's Percent Pullback Scans Guide

YEAR  
END  
EVENT

*"These scans are part of my trading tool box and ones that I run every evening to look for trading candidates."*

Price ~~\$377~~

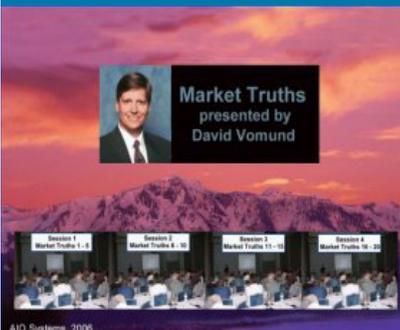
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<http://www.aiqsystems.com/stevepercentpullbackscan.htm>  
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## Market Truths - the secrets of trading in today's competitive trading markets.



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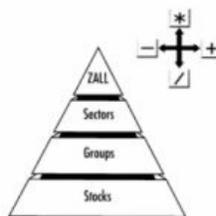
## CP Group/Sector Structure

The CP Group/Sector Structure is a highly correlated AIQ Group/Sector Structure containing 20 Sectors, 102 Groups and nearly 2000 U.S. Stocks. Stocks were screened for inclusion using Market Cap, Price and Industry Correlation. More than 95% of SP500 stocks and 90% of Russell 1000 stocks are included.

SECTOR	GROUPS
ARTIFICIALS & FIBERS	ARTIFICIALS ARTIFICIALS FIBERS
BANKS	BANKS BANKS BANKS
BANK SERVICES	BANK SERVICES BANK SERVICES BANK SERVICES
ENERGYS	ENERGYS ENERGYS ENERGYS
COMMERICAL & INDUSTRIALS	COMMERICAL & INDUSTRIALS COMMERICAL & INDUSTRIALS COMMERICAL & INDUSTRIALS
FOOD & BEVERAGE	FOOD & BEVERAGE FOOD & BEVERAGE FOOD & BEVERAGE
GENERAL SERVICES	GENERAL SERVICES GENERAL SERVICES GENERAL SERVICES
HEALTH CARE	HEALTH CARE HEALTH CARE HEALTH CARE

The CP Group/Sector Structure follows the concept pioneered by the DowJones/FTSE Industry Classification Benchmark (ICB). The ICB Industry Structure was introduced in 2005.

## AIQ Group/Sector Pyramid



Recent studies show that 49% of the gains by winning stocks can be attributed to the industry group, 31% to the market, and 20% to the company itself. These findings emphasize the important role group analysis plays in your stock selection process. The question is: how to best organize industry groups to most effectively uncover winning stocks?

The answer - AIQ has two "rational" groupings of stocks based on both fundamental and technical criteria. To determine a rational group structure, not only is each company's generic business considered, but also the trading pattern of its stock. As a result, the structure is especially sensitive to market action.



Price ~~\$188~~  
**\$109**

Find out more at  
[www.aiqsystems.com/CPgroupsector.htm](http://www.aiqsystems.com/CPgroupsector.htm)  
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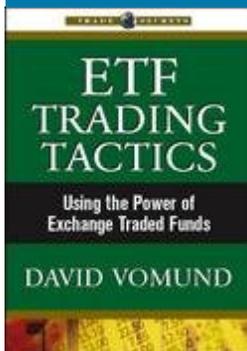
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## ETF Trading Tactics - DVD



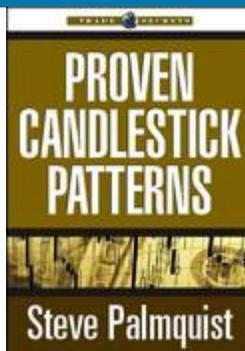
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## Proven Candlestick Patterns - DVD



Currently one the most widely used chart types, candles have the potential to be an effective tool for extracting profits from the market. But with all of the information out now about candles, how can you tell which ones work and which don't? After testing every known candlestick pattern, Steve Palmquist has determined which candlesticks are the most effective and gives you extensive data and techniques for how to best incorporate them into your trading.

Steve Palmquist has determined which candlesticks are the most effective and gives you extensive data and techniques for how to best incorporate them into your trading.

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