



of stock to be purchased at a higher price and the amount of stock to be sold at a lower price.

Being able to read the tape proficiently allows a tape-reader to interpret how the price affects buyer and seller. NYSE floor traders and electronic order routes have order filling patterns that can be spotted through study and experience.

By being able to recognize patterns, a tape-reader can position him- or herself to reap handsome reward ratios.

Because of the sheer size of the order, the pattern can exist anywhere from 30 seconds to six and a half hours. Relatively, a position that has between 500 and 10,000 shares has little impact on the market and can be wedged directly in front of one that does. This position is then held until the pattern is exhausted.

In addition, every successful trader knows that we must acquire a good “feel” of the market in order to succeed. Tape-reading is the perfect way to do so. By monitoring the price movement of the S&P futures relative to the equities you are tape-reading, you can gain that feeling of your stock and the market, enabling you to take calculated positions.

### IT'S ALL IN THE TAPE

Tape-reading is the meat and potatoes of trading because it gets down to the bare bones of what the market is, which is an auction.

Many things occur on the tape that goes unnoticed by someone who only reads charts. For instance, if stock XYZ shows 1,700 shares on the ask to be sold at \$25.25 and one trade of exactly 1,700 shares at that price, then XYZ shows 2,100 on the ask to be sold at a higher price of \$25.29 and one trade of exactly 2,100 shares at that price. Then say XYZ shows 1,300 shares on the ask to be sold at a higher price \$25.33 and one trade of exactly 1,300 shares trades there.

These three trades are stock purchases for the exact ask amount being marketed for sale on the ask, and they are referred to as *perfect prints*. This tells the tape-reader that there is an aggressive buyer around and could demand a large long position. A chart-reader, however, would miss all of this. All the chart-reader would see is that the XYZ stock traded up eight cents.

### IS TAPE-READING DEAD?

Whenever the NYSE implements a fundamental change in the way equities are traded, skeptics are quick to cry that “tape-reading is dead.” If that’s the case, why are experienced tape-readers still pulling money out of the market? The two major changes that have recently affected tape-readers are hybridization and the uptick rule. A seasonal trader cries foul at an

Symbol	Last	TSize	Change	Bid	Ask	BSize	ASize	High	Low	Volume
\$INDU	13081.68		-31.70					13197.52	13021.93	92545177
SP #F	144800		-1180	0	0			146560	144110	76351
IBM	115.86	100	+ 0.31	115.87	115.88	1	2	117.50	115.32	2681100
GS	180.05	100	+ 1.07	180.09	180.10	1	1	182.75	178.50	4783200
GOL	19.75	100	-0.63	19.75	19.76	1	3	20.44	19.71	390410
WSM	31.85	200	-0.09	31.83	31.85	4	2	32.32	31.62	441800

FIGURE 1: THE TAPE. The tape usually shows the symbol, last price, last trade size, net change, bid, ask, bid size, ask size, high, low, and volume.

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evolving market, but a great trader finds a way to exploit it, and that is possible with tape-reading.

Advanced tape-readers have taken the changes of the market they can find and found ways to use them. Before, trade orders were held by a specialist to fill at their command, or subject to the uptick rule, forcing traders to get filled sometimes 20 or 30 cents away from the precise desired point. Now, tape-readers can get filled within pennies from their goal, allowing for tighter losses and wider gains.

Any action you will be able to discern with a trade will first be visible on the tape. Then computers display a graphical depiction of that trade almost instantly, and only then producing a chart for chart-readers to read. Never forget that the tape exists without charts, but charts cannot exist without the tape.

For the record, I have the utmost respect for the chartist. I know many chartists whom I consider to be some of the best traders on Wall Street. It’s just not *my* game! Like anything in life, learning how to read the tape requires focus, time, and dedication. If you’re in it for a quick buck, I would not recommend tape-reading. If you want to make a career out of trading, however, I would.

As one of the oldest forms of trading, tape-reading will continue to exist as long as there is an opening bell and there are large institutions that need to transact positions. In the words of Edwin LeFèvre, “A battle goes on in the stock market and the tape is your telescope.”

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### SUGGESTED READING

LeFèvre, Edwin [1994]. *Reminiscences Of A Stock Operator*, John Wiley & Sons. Originally published in 1923.