Twitter Thread by Erik Townsend ■■



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1/THREAD: UNDERSTANDING PRICE TRANSMISSION VIA ARBITRAGE $ABXX $ABXXF

TL;DR: While I couldn't possibly be more bullish @abaxx_tech, today is NOT the day to buy the U.S. ADR $ABXX, which is trading at a ridiculous premium to the last $ABXX (Canadian) close.

WAIT FOR TOMORROW!

@abaxx_tech 2/What's happening today is not specific to $ABXXF. It affects a lot of Canadian stocks with U.S. ADRs, and many of those ADRs are up a lot this morning.

They're not up because the companies got better. They're up because Canadian markets are closed. The connection isn't obvious

@abaxx_tech 3/Let's still with @abaxx_tech to explain the concepts thru example.

$ABXX is the Canadian ticker. This company has tremendous prospects, and no doubt in my mind the stock is headed MUCH higher long-term.

But that his NOTHING to do with why the price literally doubled this AM.

@abaxx_tech 4/What happened this morning is that when someone bought $ABXXF at the open--and it probably wasn't even a big order--there was no seller to match the order to at a reasonable price.

The result: the price spiked to +92% from the prior close instantly! BUT...

@abaxx_tech 5/The reason the price spiked had nothing to do with its value going up. The price spiked because THERE WAS NO SELLER OFFERING LIQUIDITY to absorb the buy order.

Why not? One reason is that few investors holding ABXXF have any desire to sell it. But NORMALLY, there would have

@abaxx_tech 6/been plenty of liquidity thanks to ARBITRAGEURS (or just "arb's" in industry parlance) being ready to buy ABXX on the Canadian market and then sell those shares as ABXXF in the U.S. market. The arbs keep the price of ABXXF and ABXX in sync on normal days.

@abaxx_tech 7/But Canadian stock exchanges are closed today because of a Canadian holiday. That means it's impossible for anyone to buy ABXX on the Canadian exchange today.

So the ARBs can't buy ABXX and that means they can't sell ABXXF. They have no source of shares to buy in Canada and

@abaxx_tech 8/then turn around and sell in USA.

With no ARBs selling, what happens to price? It goes to the moon instantly because people were buying ABXXF this morning but there was nobody holding ABXXF that was willing to sell it. The price literally (almost) doubled in an instant!

@abaxx_tech 9/What can we expect tomorrow? Canadian markets will be open and ABXX shares will be available for purchase. Most likely they will open not too far above their closing price of CAD 3.92 from before the holiday. The ARBs will again be able to supply the U.S. ABXXF market with

@abaxx_tech 10/Canadian-sourced shares, and the market will trade efficiently again. This very likely means the price of ABXXF will return to US $3.10 or just above that level, at least initially.

Some astute ABXXF holders who ARB's the price inefficiency today are very likely to buy back

@abaxx_tech 11/more shares tomorrow morning than they sold into today's price spike, and that will probably help the stock rally at least a bit after the open. But not up to anything close to the CAD $7.80 that ABXXF touched this morning (that's USD 6 converted to CAD) on the open.

@abaxx_tech 12/As a couple of particularly astute Tweeps have pointed out this morning, the fact this happened really does convey a bullish long-term signal for ABXX and ABXXF. It means that there's a strong buyer's demand for the shares, and as soon as the "overhang" of early investors

@abaxx_tech 13/taking profits to "free-ride" their positions has been exhausted, it likely means the stock is set up for a serious rally higher.

But the massive price spike in $ABXXF this morning was mostly an anomaly due to $ABXX being halted for the Canadian holiday.

@abaxx_tech 14/If you already hold ABXXF, the smart move here is to sell ABXXF today at any price over $3.50 or so, and then use the proceeds to buy back MORE SHARES tomorrow morning when ABXX is open and there's more liquidity.

@abaxx_tech 15/If you don't already own @abaxx_tech thru either $ABXX or $ABXXF, your best move is to WAIT THIS OUT. The price is very very likely to come back down to somewhere between 3.10 and 3.10 USD by tomorrow's open when the Canadian shares are trading.

@abaxx_tech 16/The same thing is happening to a LOT of Canadian stocks with American ADRs this morning. It's not just @abaxx_tech. But the price dislocation on $ABXXF was bigger than most other Canadian ADR issues. That's a long term bullish signal for $ABXX, but wait for tomorrow to buy.

@abaxx_tech 17/And if you're going to buy $ABXXF, do some homework on trading OTC stocks before you buy. I can't do justice to the subject in a thread, but briefly the major points are NEVER use market orders. Always use limit orders. Be mindful of the bid-ask spread, and try a limit order

@abaxx_tech 18/splitting the spread before paying the advertised ask price. The market makers often have room to meet you in the middle. Get the "real price" in CAD from https://t.co/FHB2fw51S8 then convert to USD to know the fair price. Then use a limit order a tick or two above that

@abaxx_tech 19/known fair price (after converting to USD) to hopefully get filled at a more attractive price. The bigger your order (#shares) the more likely you'll get filled at a tighter spread to fair value.

Follow @James_Duade for trading ideas relative to ABXX/ABXXF.

/END_THREAD