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Markets

Way-Off-Exchange Stock Volume Hit a Trillion, Then It Doubled

By Elena Popina

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In the latest sign of extreme froth in retail trading, volume in the shadiest districts of U.S. equities doubled last month even as it slowed in the respectable parts.

Trading exploded everywhere in January as the meme-stock frenzy descended on basically any company with even the faintest pulse and a good excuse to be pumped. While things calmed down in February on major U.S. exchanges, the opposite was true in the anything-goes segment of the market, as over-the-counter volume spiked to almost 2 trillion. It had crossed a trillion in December.

Armed with stimulus checks and a wide-eyed yearning to find the next GameStop Corp., retail traders decided to dabble way off exchanges. The appeal to newbie speculators is obvious. It doesn't take much hype on Reddit or elsewhere on social media to get these micro-microcaps moving. Whereas companies on the New York Stock Exchange and Nasdaq trade in a highly regulated market, there are no listing standards for OTC stocks and not much oversight.

"It's more like buying lottery scratch offs," said **Joseph Saluzzi**, co-head of equity trading at **Themis Trading LLC**. "Chance of winning is small but it only costs a \$1 so 'what the heck' seems to be the attitude. They are all looking for the next stock to run, and they take a chance on low-priced ones."

Over the Moon

Almost 2 trillion shares changed hands in over-the-counter trading in February

Investors are clearly favoring lower-priced shares. Whereas in March 2020 OTC trades were struck at an average of 63 cents a share, that plunged to 4 cents in February, according to Finra. This means it took less money to gin up big volume, partly explaining the incredible surge.

The 1.9 trillion shares traded in February was up almost 2,100% from March 2020 and 51% versus January. The GameStop mania had in January increased overall trading for exchange-listed companies -- the business tracked by the Dow Jones Industrial Average and S&P 500, and what people usually think of as the U.S. stock market -- but then volume slowed in February.

Taking a Breather

Trading volume on U.S. exchanges dipped last month after January spike

To Steve Sosnick, chief strategist at Interactive Brokers, the OTC explosion is a warning sign.

“It’s hard to resist what appears to be a lottery ticket,” he said. “Unfortunately, scammers, promoters and pump-and-dump artists know this, too, meaning it often ends badly for those who join the game at this point. There are many worrisome signs surrounding OTC stocks.”

Companies with little or no revenue and stock prices that can’t even break a penny are the new leaders. Back in January, it was Zomedica Corp., which soared after a “Tiger King” star touted it. On Thursday, 6 of the 10 most-active stocks on OTC Markets, a quoting service for these companies, were cheaper than \$0.002 a share. The most popular was Healthier Choices Management Corp., which goes for about a tenth of a penny.

“People are trying to make money fast, and that’s a very dangerous signal,” said Michael O’Rourke, chief market strategist at JonesTrading. “Things will slow down as people eat through their capital. The level of speculation and froth out there is insane.”

— With assistance by Vildana Hajric