The Continuous Trading Market

Secondary markets for commonly traded securities: stock exchanges, bond markets, options markets, cryptocurrency exchanges, and foreign exchange markets being among them, operate as ***continuous trading markets***. In a continuously traded market, as opposed to other types of auction-style markets, traders are able to trade at will and unlimitedly. This is accomplished through a market structure composed of four total groups who are subdivided by two dimensions of interest. The first division is a participant classification. The market participant is either a *market maker* or a *market taker.* A further subdivision can then be made for the participant's buying or selling interest.

Market makers making a ***bid offer*** are traders who have an interest in *buying* a security at or *below* the prevailing market price. This market maker submits their offer at a price they believe will be competitive in the near future, but is not greater than their own value assessment. Alternatively, market makers making an ***ask offer*** are traders who have an interest in *selling* a security at or *above* the prevailing market price at the time they submit their offer. As a group, market makers provide the landscape for the market—sculpting the peaks and valleys of price interest.

In the continuous trading market, offers are arranged competitively by price, such that the most competitive offers are given priority over less competitive offers. The prevailing market price is the best offer provided by a market maker at a given moment. If the offer is to buy a security, it is termed the *bid price*; whereas if the offer is to sell a security, it is termed the *ask price*. A trade is executed when a ***market taker*** accepts an offer at the prevailing market price. The market taker agrees either to *sell* their securities at the *bid price*, or conversely agrees to *buy* securities at the *ask price*. Once the market maker and market taker are matched, the market maker's offer is removed from consideration, and the prevailing market price becomes the next best available offer by a market maker.

The continuously traded market is transparent, meaning that price discovery is available even as a non-active market participant. As market takers have more freedom to spectate from the sidelines, the supply side of the market is always somewhat uncertain. To be a market maker is like fishing with a baited rod. The fish are out there, only, '*where?'* or *'how many?'* or *'how big?'* are unanswerable questions. Supply-driven volatility is an inescapable consequence of the market structure itself, and hence a certain tolerance for short-term speculative trading ought to be acceptable. In the next section, we will look at a measure that compares the bid and ask prices of the quote. This measure is called the spread.