



Brainy's Articles on Share Trading**

Bulls and bears & the auction

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Introduction

In comments and discussion about the share market, people often talk about the *bulls* and the *bears*. But a lot of people don't realise the underlying inferences from this, and that the operation of the share market is nothing more than an on-going auction process.

The actual mood and sentiment of the market can be seen in the resulting price charts where it is often very evident in the individual candlesticks for each market period — whether the period be one day or one week, or even one month.

This Article in Brainy's series on Share Trading and Investing (number ST-1100) discusses the notion of the share market being little more than a mechanism for the auctioning of company shares. [Remember that the definition of a *share market* is "a forum for the organised trading of various securities".] This article also discusses the relevance of the bulls and bears in the market. And we also do this by studying some simple bullish candlestick patterns (including basic reversal patterns).

The auction process

The buying and selling of company shares on the share market is akin to an auction. This is illustrated in the *market depth* screen which lists buyers and sellers in a particular sequence, as shown in Figure 1 below. This is a snap shot for a particular stock on the Australian share market at a particular time during one trading day. Note the key features of this market depth diagram:

- The left hand half is a list of buyers (also called bidders), showing the total "Quantity" of shares desired to be bought at a particular "Price". The first line shows 15,346 shares are being bid for, at a price of \$37.75 each. Likewise, the second line shows that 8,067 shares are being bid for at an offered price of \$37.74 each.
- The right hand half is a list of sellers, showing the total "Quantity" of shares offered for sale at a particular "Price". The first line shows 5,013 shares being offered for sale at \$37.77 each.
- In both cases the "Number" column is the total number of people bidding or offering at each price level, with 14 people bidding to buy at \$37.75, and 8 people offering shares at \$37.77.
- Notice that the column of buyers on the left is sorted with the highest bid price at the top of the list and the lowest at the bottom. Conversely, for the sellers, the lowest offered price is listed at the top, and the highest offered price is at the bottom.
- If the buyer at the top of the list can agree on price with the seller at the top of the list, then a parcel of shares will change hands at the specified price.

Market Depth						
BUY				SELL		
Number	Quantity	Price	#	Price	Quantity	Number
14	15,346	37.750	1	37.770	5,013	8
8	8,067	37.740	2	37.780	982	7
2	1,006	37.730	3	37.790	2,857	4
3	6,278	37.720	4	37.800	21,445	10
8	10,811	37.710	5	37.810	9,863	2
2	11,600	37.700	6	37.820	2,100	2
2	5,306	37.690	7	37.830	3,724	3
4	7,600	37.680	8	37.840	9,152	4
1	5,000	37.670	9	37.850	10,000	1
4	6,562	37.660	10	37.860	11,859	3
2140 buyers for 1,501,950 units				2184 sellers for 2,789,709 units		

Figure 1: Market depth (for BHP using CommSec).

** - The two words *trading* and *investing* are often used somewhat interchangeably.