

8 Online Appendix

In this appendix we provide more details on our computation of the measure of spread that we use in the baseline regressions.

There are several cases. First, consider the case in which the first order for a specific CUSIP by a dealer is a buy order. The buy price is then the price of that first order. As the dealer buys more of the bond at different prices, the buy price changes to an average, weighted by the number of bonds at each price (if some bonds are sold before a new buy order comes in, then the weight on the old price is the number of bonds remaining in the dealer's inventory). We use the same logic to calculate the buy time. The hold time is simply sell time minus the last calculated weighted buy time, as long as the dealer still holds some of the bonds after the sale.

If the first order for a specific CUSIP by a dealer is a sell order, then we compute the weighted sell price and the hold time following the same logic as above. The sell time is calculated in the same way too.

Second, consider the case in which the dealer reaches a balance of 0 shares for a specific CUSIP at some later point. The buy price is then the price of the first order after the 0 balance is reached. As the dealer buys more of the bond at different prices, the buy price changes to an average, weighted by the number of bonds at each price (if bonds are sold before a new buy order, then the weight on the old price is the number of bonds remaining). We use the same logic to calculate the buy time. The hold time is just the sell time minus the last calculated weighted buy time, as long as the dealer still holds some of the bonds after the sale (they don't sell more than they own). Similarly for a sell order.

Lastly, consider the case in which the dealer starts with a negative balance for a specific CUSIP, but with a single order buys more than the negative balance and ends up with a positive holding. The buy price is then the price of the order that shifted the balance from negative to positive. As the dealer buys more of the bond at different prices, the buy price changes to an average, weighted by the number of bonds at each price (if some bonds are sold before a new buy order comes in, then the weight on the old price is the number of bonds still held). We use the same logic to calculate the buy time. The hold time is just the sell time minus the last calculated weighted buy time. We no longer restrict the calculation according to the balance after the transaction. Similarly, if the

dealer starts with a positive balance but in a single order sells more than that amount to end up with a negative balance, we can calculate the (weighted) sell price and sell time. The hold time is just the buy time minus the last calculated weighted sell time.