Beware of geeks bearing gifts

By some estimates, algorithm-based trading programs now trigger 70 percent of all US equity trades. By some estimates, algorithm-based trading programs now trigger 70 percent of all US equity trades, reports *The Atlantic*. Exploiting the smallest market inefficiencies they trade in millionths of a second and some fear that they could spark the next financial meltdown.

Some ‘algos’, as they are called, can detect other algos embarking on predictable trading strategies and ruthlessly adjust their techniques. “They’re growing ever more complex, subtle and sophisticated,” writes *The Atlantic*.

In early May such algos exacerbated a sell-off that drove the Dow down more than 900 points in less than an hour. It brought into the public spotlight two worries: That the proprietors of these algos may not be in full control of their creations and that the strategies they pursue are, in some cases, fundamentally warping the financial markets.

Or as Professor Bernard Donefer, of City University of New York, puts it in *The Journal of Trading*, “Beware of geeks bearing gifts”. Donefer contends that the speed of algos and their ability to reach so many markets simultaneously make a market disaster inevitable. “I am further convinced that with no planning method to identify the cause or regulatory framework, it will be virtually impossible to stop before significant systemic market damage is done,” says Donefer.

*The Atlantic*: Monsters in the market
Prof Donefer: Algo’s gone wild