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[Google Translation from Russian]

Raging Bulls: How Wall Street became dependent on the "speed" of trading. Part 4



[Перевод] Неистовые быки: как Wall Street попала в зависимость от «скоростных» торгов. Часть

In March last year, has recently opened stock exchange BATS, located in Kansas City, organized its own IPO. But after a few seconds after the start of trading, something went wrong: some bug "froze" trading in shares on the most BATS BATS Exchange and in the bidding process brought down the server responsible for all tickers, acronyms that begin with the first letter alphabet. Therefore, system shutdown adversely affected and one company from Cupertino, whose name begins with the letter "A" because of its stock prices on the exchange BATS mistakenly was listed by 10% below fair value, which caused a brief stop on all trades shares of the company, one of the most famous in the world. [*Company with the letter "A" - is Apple - approx. pens .*]

Meanwhile, the only exchange quoted shares was BATS Nasdaq, and it also began strangeness. Within 900 milliseconds, too fast for anyone could respond to this, the price per share BATS collapsed from \$ 15.25 (price at the time of the opening of trading) to \$ 0.28, down to a tenth of

a cent before trading was suspended as. Executive Director BATS apologized, took responsibility for the incident, stopped the IPO process and canceled trades. But maybe there was something more than just a system failure. Analyzing transaction engineer Jeffrey Donovan Nanex saw traces of the algorithm developed in order to enter the stock market with a consistent decrease in the price.

"This algorithm waits for a few milliseconds after each transaction to offer price was lower than the price offered by the algorithm, and the cycle repeats until the share price until it becomes equal to zero", - he says.

Whoever was behind it, he was not going to cash in on this operation; CEO Nanex Eric Scott Hunsader believes that it was an attempt to destroy the BATS, which just a few years has taken away 10% of the market volume of U.S. trading from their mothers competitors. **High Frequency Trading raises existential question: Why do we stock markets? Today, trading becomes an end in itself.** Representatives BATS did not comment on this theory, the rumor that went around to all the stock exchanges last spring (Commission for the Securities and Exchange Commission U.S. studies this story). Other market commentators were skeptical

In obšem, as CEO says Tradeworx Manoj Narang - "Computers do not stanovâtsâ součastnikami in Handling Market. A VOT People stanovâtsâ. Any vysokočastotnyj trader, "zašivaûšij» manipulâtivnuû logic in an algorithm for kotoryj can draw to the court, probably too stupid for Togo, to ponimat, how to play the BIRŽU. "

Much of Wall Street was looking for what happened pluses. Since the fall BATS not provoke a crisis in other markets, many market observers believe that the rules introduced in order to prevent a repetition of "Instant collapse» (FlashCrash) May 6, 2010. - When the index Dow Jones Industrial Average fell 600 points in five minutes - after work. High-frequency traders believe that this event introduced the audience into thinking it is because of what is now ihobvinyayut every financial crisis since the Great Crash of 1929.

"People literally shakes when they find out what I do," - says Irene Aldridge, a leading algorithmic trader and member of the panel discussion at the Battle of Quanta.

In stostranichnom report regulators, avoiding the use of the word "wine" or "responsibility", declare that disaster of 2010 began with the fact that "High-frequency traders began to quickly buy and then resell contracts to each other - creating the effect of" hot potato " since the same position often fluctuated up and down. " For those who follow the status of their retirement accounts, this news is not of good, for a little over two years since "Instant collapse" investors had withdrawn more than \$ 300 billion of long-term mutual funds.

"When someone can cause panic because of single bad deal for investors creates an unfavorable environment" - said an employee Themis Trading Sal Arnuk, - "That's why they continue to leave the market to this day."

High-frequency trading capitalism sets existential question that most traders are afraid to face to face: Why do we stock markets? Standard textbook answer is: to stimulate business investment

by providing guarantees to investors that they can always sell their shares at a stated price - and this ensures the liquidity of their investments. From 1792 to 2006 the New York Stock Exchange was quasi-nonprofit organization that owned the exchange members, brokers who trade on it. Now it is a branch of a larger company NYSE Euronext, whose own profit and market price depends on whether the high-frequency traders involved tender. Stronger trading closes on itself, separated from the part of the economy in which the manufactured products and services, and an even greater proportion of GDP - twice more than a hundred years ago, when Wall Street financed frenzied industrial growth.

"It is at least contrary to common sense" - writes economist at New York University, Thomas Philippon in an article for the fund Russell Sage Foundation. "Why, then, today's financial industry is not superior to the financial industry since John Pierpont Morgan?"

At a press conference held a few months ago, Mary Schapiro (Mary Schapiro), chairman of the Securities and Exchange Commission, said it is concerned about the volume of trading "unrelated to the main characteristics of companies listed on stock exchanges." And methods have been proposed to abolish this state of things, such as the proposal to punish traders for canceling too many teams. Most of these innovations and has remained at the level of sentences. "Circuit breakers" impose restrictions on the gradually accelerating decline or increase in prices in the markets, but now the high-frequency trading is essentially not regulated (now Commission on Securities and Exchange Commission says it will at As to audit trading, occurring at a rate of microseconds - by purchasing access to data Tradeworx). protection in automated trading stands the fact that it reduces the cost of trading and increase liquidity by reducing the spread between the purchase price and the sale price of the shares.

"At the end of each trading day the shares transferred into the hands of people who want to keep them in the hope of expanding their value or to pay dividends," - says Bernard Donefer in the center of financial services Subotnick College. Baruch City University of New York. "If you - one of these people, then you should not worry about what is happening on the exchanges from 9:30 to 16:00 and can safely feel the benefits of reducing the cost and increasing the speed of execution of commands."

This is certainly good, but, as noted by Sal Arnuk and his co-author Joseph Saluzzi in the book «Broken Markets», you also have the risk that stock prices will fluctuate in the range of unimaginable if algorithmic traders stop using their program in order to avoid their own losses. It is not the business where the money will earn for you.