Financial Market: Analysis and Trading

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## Introduction

This unit aims to provide participants with an introduction to financial markets and the way that securities are traded. It presents a method of evaluating trading success and introduces some common trading strategies. The unit is composed of four parts that culminate in the presentation of an investment strategy. The unit will require some pre-reading activity.

## Part One: Introduction to financial markets

*Rotman Interactive Trader* and the Microstructure Case Studies will be used to introduce electronic markets, market and limit orders as well as trading costs, margin and the bid-ask spread. Traders will have to manage customer orders and make decisions about how to use these orders and how and when to provide liquidity.

* Microstructure, the organisation of markets and the evolution of these institutions.
  + open-outcry
  + dealer/market-maker
  + electronic orders
* The key market participants, their role and motivation.
  + market-makers
  + speculators
  + noise or liquidity traders
  + real money and long-term accounts
* The importance of liquidity: avoiding *fat fingers* and getting paid for providing liquidity

## Part Two: Information and price discovery

The price discovery process, market efficiency and inefficiency. Information, speculation and sentiment. *Rotman Interactive Trader* price discovery case studies develop notions of the market efficiency and the relationship between the cost of acquiring information and the benefit that can be gained from it.

* The efficient market hypothesis and the varying spectrum of efficiency
* Behavioural finance and *systematic mistakes*
* Institutional causes of inefficiency

## Part Three: Technical trading rules and event studies

There are two standard ways of identifying market inefficiencies: technical trading rules and event studies. Technical rules seek to identify trends and turning points in financial markets; event studies assess the effect of particular events on securities. Each of these are used to try to find market inefficiencies that can be exploited.

* An introduction to technical analysis: the trend is your friend and turning points
* Technical trading rules: back-testing.
* Event studies: does the outcome differ from the efficient reaction, can it be exploited?

## Part Four: Other trading ideas

The unit concludes by presenting a number of other commonly used trading techniques and with an invitation for participants to develop their own ideas using the framework that has been outlined in the unit.

* Paris-trading to isolate risk
* ETFs for dynamic asset-allocation
* Carry-trades across exchange rates and interest rates
* Applying value-investment to other fields and time frames