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There is a substantial risk of loss associated with trading Derivatives . Losses can and will occur. My methods will not ensure profits

Monday, April 7, 2014

HFT Humbug

Michael Lewis' new book "[Flash Boys](#)" have brought in the High Frequency Traders to the centre stage again. Financial media and forums are abuzz again with hot discussions. General opinion is against the HFTs and many argue markets are rigged against the average retail trader by HFTs

I don't think HFTs are threat to the retail trader. They are operating in an ultra lower time frame that we cannot even imagine. Their activities are just noise for us. Does an hourly chart trader care about the moves in 3M charts? No. Then why should we care about the millisecond time frame?

Further most of the HFTs are operating in niche segments. They are into cross exchange arbitrage and index arbitrage mainly. Algos sniff around and spot thin imbalances and feed on the price differences. In fact HFTs will speed up the price discovery and will make the market more liquid.

Then who is making this hue and cry? Who is shedding crocodile tears in the name of the retailer? It is none other than the old market makers. They were making money on ask bid differences for centuries and now is on the verge of extinction. Even [Goldman](#) is trying to sell its market making operation. They are asking for \$30 Million for something they bought at \$ 6.5 Billion. Anybody interested?

Watch the video. It shows the cross exchange trades executed in the stock of "Merck" during 10 milliseconds that is 1/100th of a second on May 16, 2013. The animation is slowed down by a factor of 40000. The fastest order feed by a human will take 215 milliseconds. HFTs are here to stay. We can't compete with them and we need not compete with them. So don't worry about them.

Posted by [SMART Trader](#) at 5:50 PM



4 comments:



[Unknown](#) April 7, 2014 at 6:11 PM

Hi ST

I think Michael Lewis does it again.
His Liar's Poker and The Big Short were phenomenal. This is taking trading to stratospheric level.

But the thrill of DP trading is unmatched!!!

The most important computer on earth, our brain, has created HFT and also has created DP trading.

If the trader has to learn a skill, DP trading is the answer be it be any time frame.
We may never know how many BOFs are taking place in 1/100th of a second, but they are taking place.

That is how I see at HFT

Thanks for the post

TBP

Reply



SMART Trader April 7, 2014 at 10:03 PM

I was going through some old data and find this.

<http://www.traderji.com/attachments/futures/16941d1315630259-10-crore-tradable-indian-f-o-nifty.jpg>

Look at the volume average 4 lakh contracts. Currently less than 2 Lakh. That time Mini Nifty was also there

ST

Reply

Anonymous April 9, 2014 at 1:43 PM

Hi Sir,

Thanks for the informative Post.

Very good article is posted on Traderfeed named 'Selective Attention and trading blindness' . The selective attention video is worth watching . Just thought to share with you all.

Thanks

Arvind

Reply



SMART Trader April 9, 2014 at 2:48 PM

Arvind

Thanks

ST

Reply

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