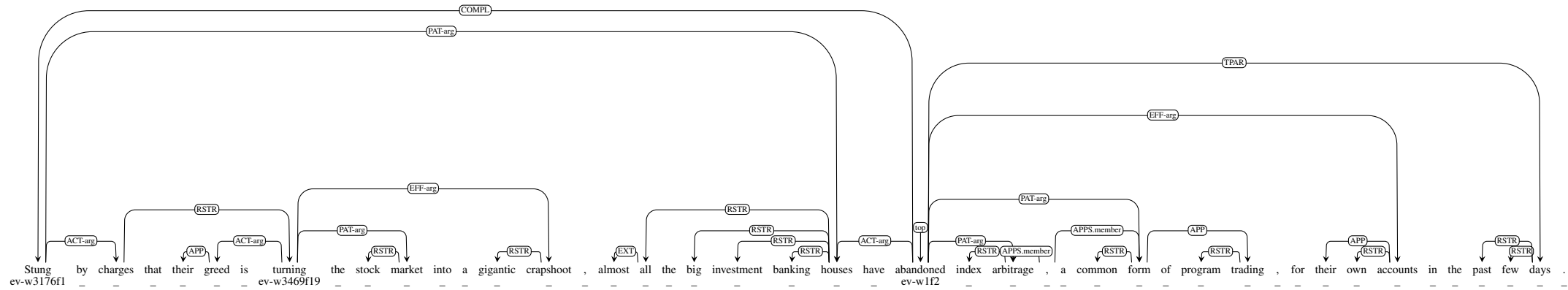
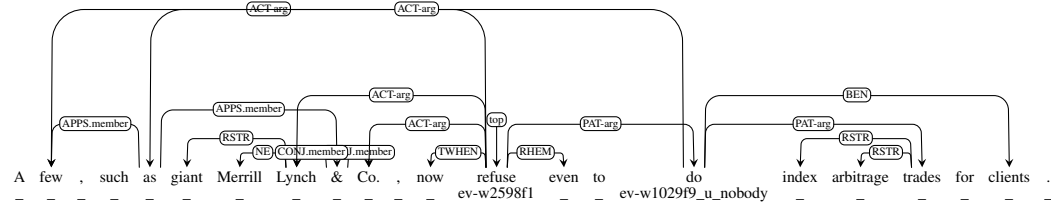


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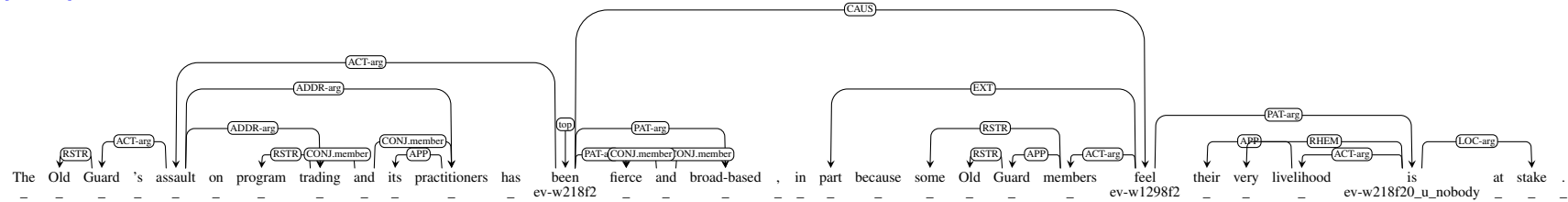




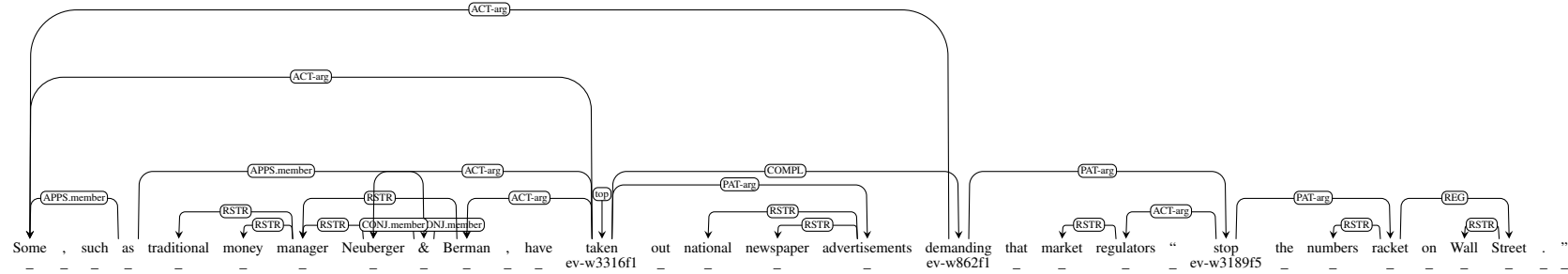
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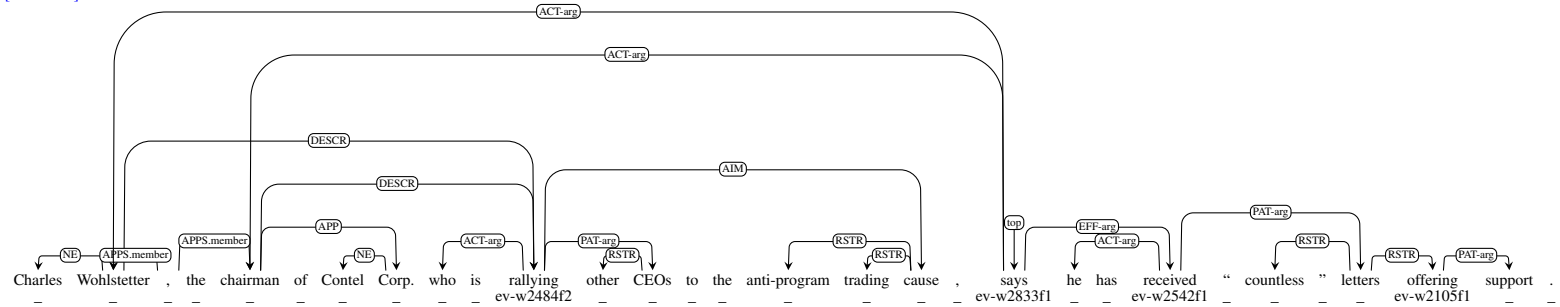
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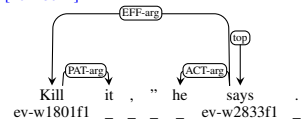
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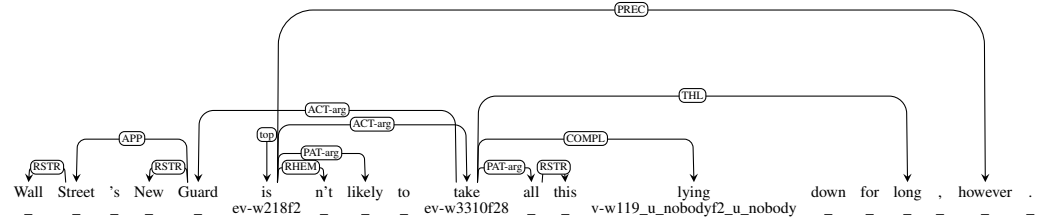
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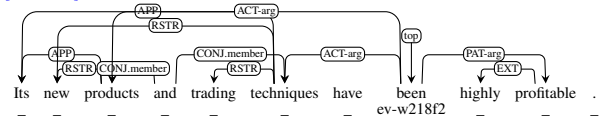
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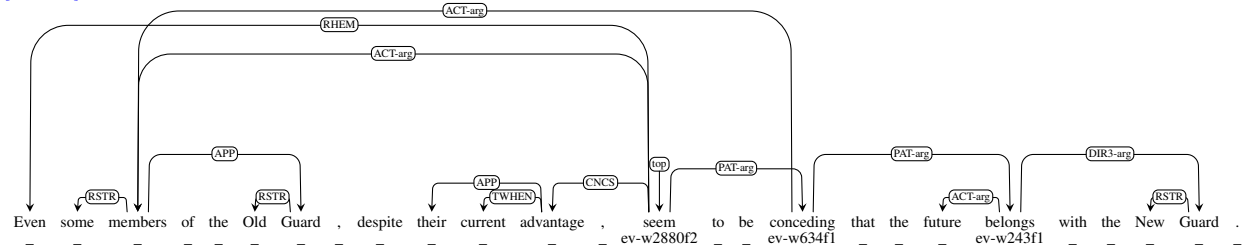
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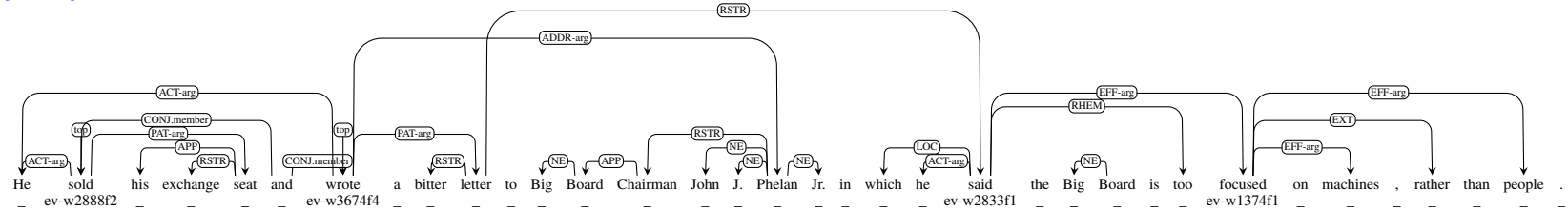
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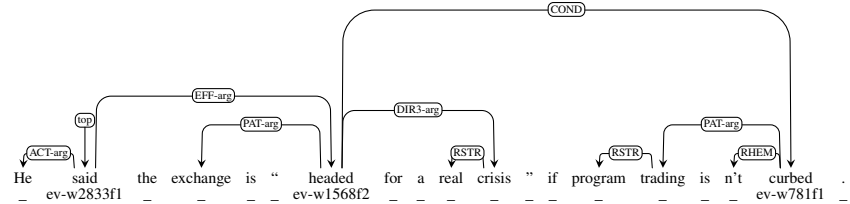
[20118026]



[20118028]



[20118029]



[20118030]

“ Just a blind fear of the unknown is causing them to beg the regulators for protection . ”
- - - - -
ev-w467f2 - - - - - ev-w232f1 - - - - -

[20118046]

For all the furor , there is nothing particularly complex about the concept of stock-index arbitrage , the most controversial type of computer-assisted program trading .
- - - - -
ev-w218f3 - - - - -

[20118048]

That divergence is what stock index traders seek .
- - - - -
ev-w218f2 - - - - - ev-w2878f2 - - - - -

[20118049]

When it occurs , the traders place orders via computers to buy the basket of stocks (such as the 500 stocks that constitute the Standard & Poor 's 500 stock index) in whichever market is cheaper and sell them in the more expensive market ; they lock in the difference in price as profit .
- - - - -
ev-w2103f1 - - - - - ev-w2290f1 - - - - - ev-w410f1 - - - - - ev-w669f1 - - - - - ev-w218f2 - - - - - ev-w2888f2 - - - - - ev-w1891f1 - - - - -

[20118050]

Such program trades , which can involve the purchase or sale of millions of dollars of stock , occur in a matter of seconds .
- - - - -
ev-w1756f1 - - - - - ev-w2103f1 - - - - -

[20118051]

A program trade of \$ 5 million of stock typically earns a razor-thin profit of \$ 25,000 .
- - - - -
ev-w1083f2 - - - - -

[20118052]

To keep program-trading units profitable in the eyes of senior brokerage executives , traders must seize every opportunity their computers find .
- - - - -
ev-w1792f2 - - - - - ev-w2885f1 - - - - - ev-w1327f3 - - - - -

[20118053]

The speed with which such program trades take place and the volatile price movements they can cause are what program trading critics profess to despise .
- - - - -
ev-w3310E37_ul_nobody - - - - - ev-w467f1 - - - - - ev-w218f2 - - - - - ev-w2397f1 - - - - - ev-w902f1 - - - - -

[20118055]

But many experts and traders say that program trading is n't the main reason for stock-market gyrations .
- - - - -
ev-w2833f1 - - - - - ev-w218f2 - - - - -

[20118056]

“ I have not seen one iota of evidence ” to support restrictions on program trading , says a Vanderbilt University finance professor . Hans Stoll , an authority on the subject .
- - - - -
ev-w2875f4 - - - - - ev-w3262f1 - - - - - ev-w2833f1 - - - - -

[20118057]

Says the Big Board 's Mr. Phelan , “ Volatility is greater than program trading . ”
- - - - -
ev-w2833f1 - - - - - ev-w218f2 - - - - -

[20118058]

The Oct. 13 plunge was triggered not by program traders, but by news of the unraveling of the \$ 6.79 billion buy-out of UAL Corp.

[20118059]

Unable to unload UAL and other airline shares, takeover-stock speculators, or risk arbitrageurs, dumped every blue-chip stock they had.

[20118060]

While program trades swiftly kicked in, a "circuit breaker" that halted trading in stock futures in Chicago made some program trading impossible.

[20118061]

Susan Del Signore, head trader at Travelers Investment Management Co., says critics are ignoring "the role of the { takeover stock } speculator is taking in the market as a source of volatility."

[20118062]

Many arbs are "overleveraged," she says, and they "have to sell when things look like they fall apart."

[20118063]

Like virtually everything on Wall Street, the program-trading battle is over money, and the traditionalists have been losing out on bundles of it to the New Guard in recent years.

[20118064]

Take the traditional money managers, or "stock pickers," as they are derisively known among the computer jockeys.

[20118065]

Traditional stock managers like to charge 50 cents to 75 cents for every \$ 100 they manage for big institutional investors, and higher fees for smaller investors.

[20118067]

Not surprisingly, old-style money managers have been losing clients to giant stock-index funds that use computers to juggle portfolios so they mirror the S&P 500.

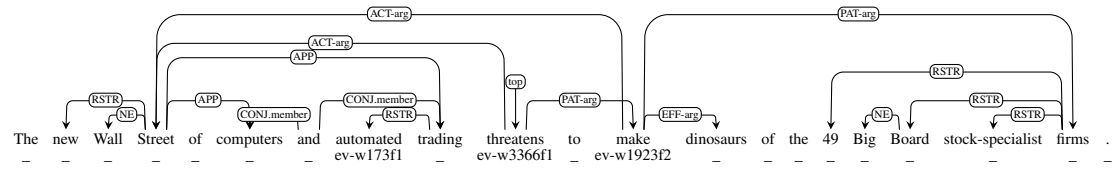
[20118068]

The indexes charge only a few pennies per \$ 100 managed.

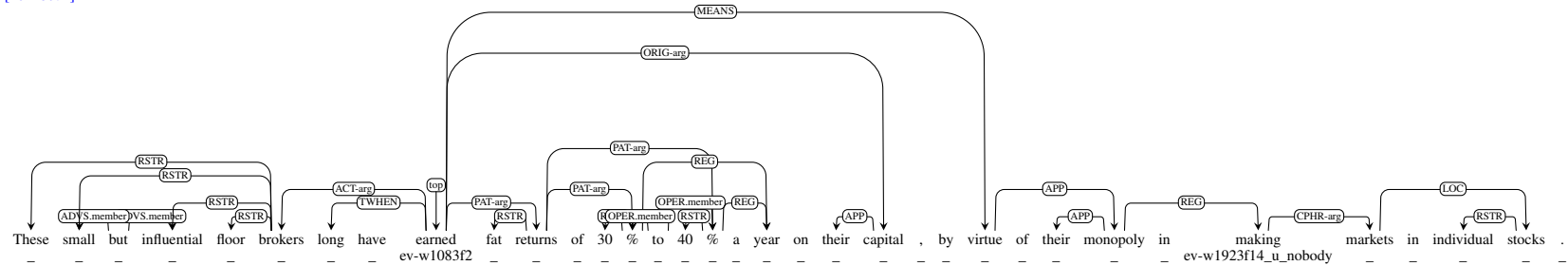
[20118069]

Today, about \$ 200 billion, or 20 % of all pension-fund stock investments, is held by index funds.

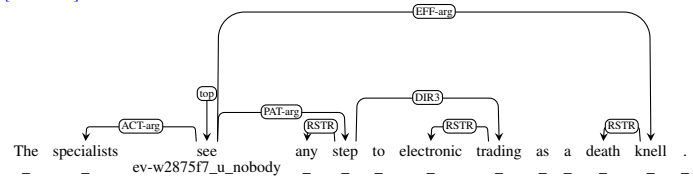
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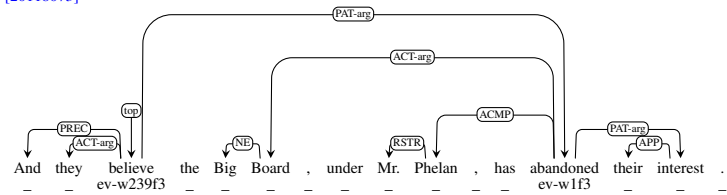
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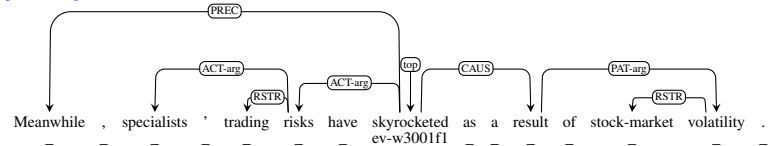
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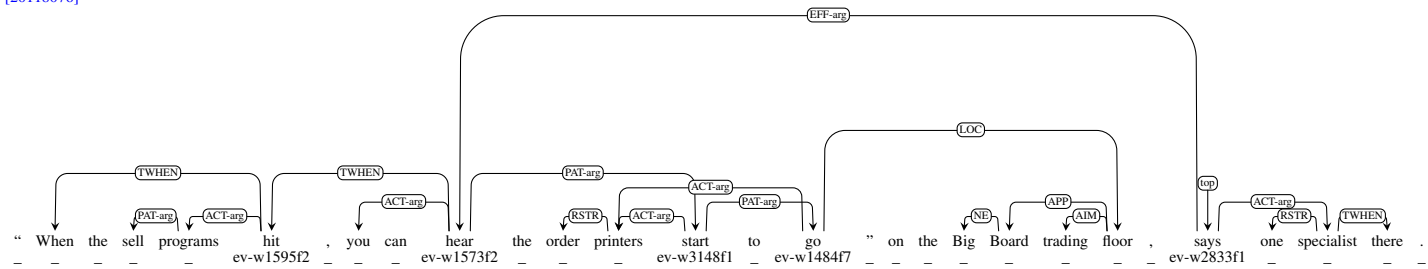
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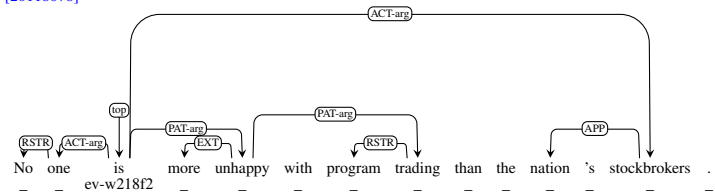
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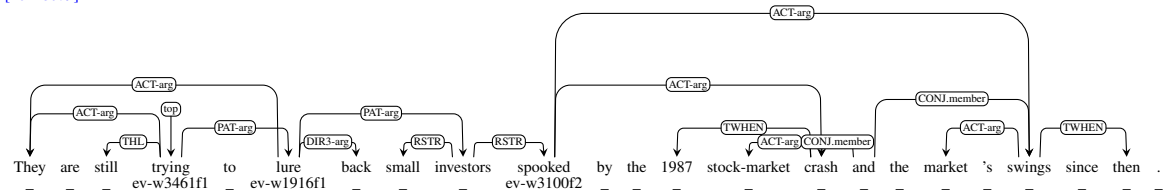
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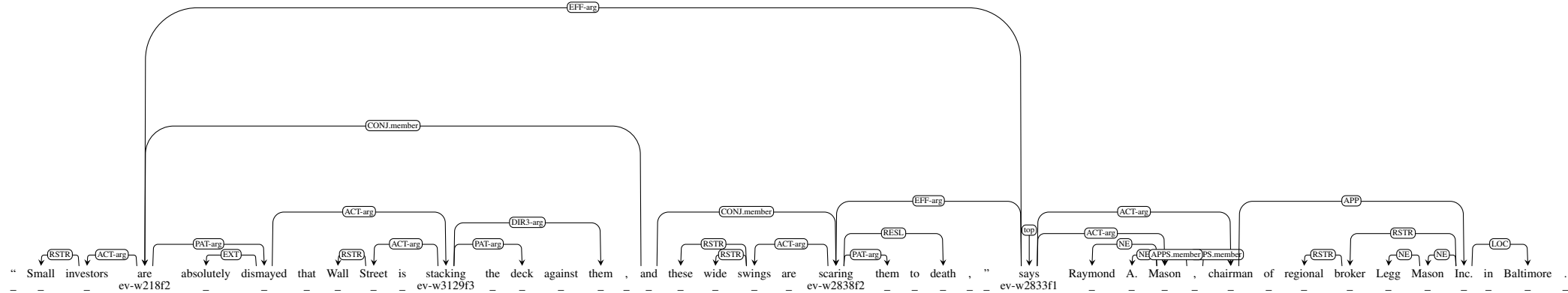
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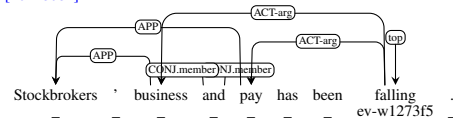
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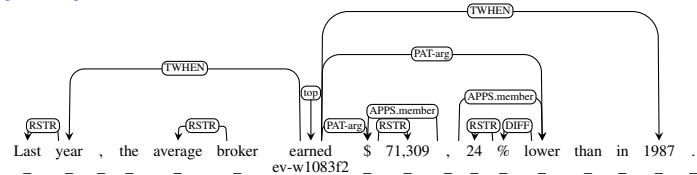
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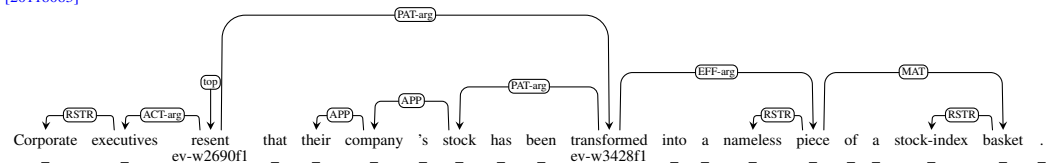
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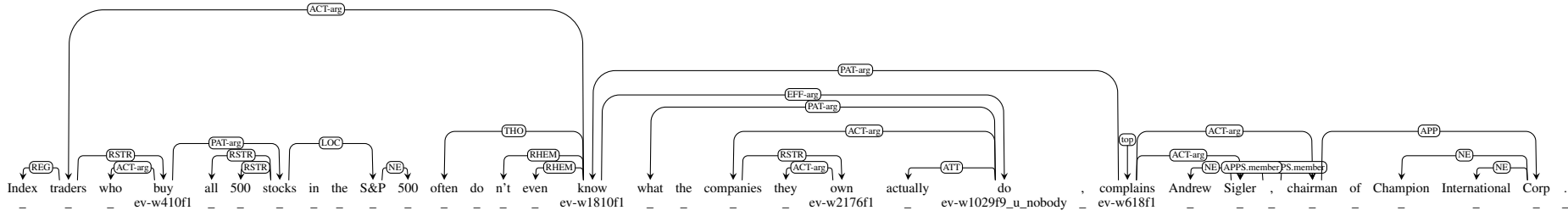
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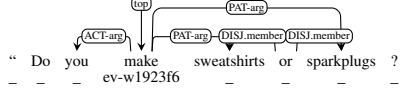
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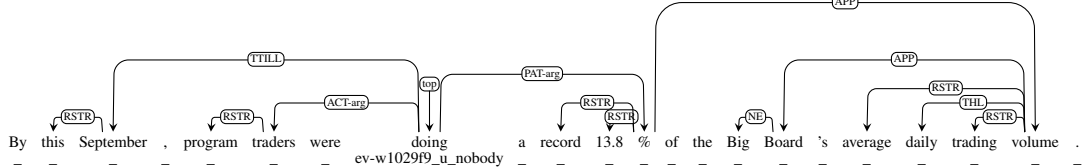
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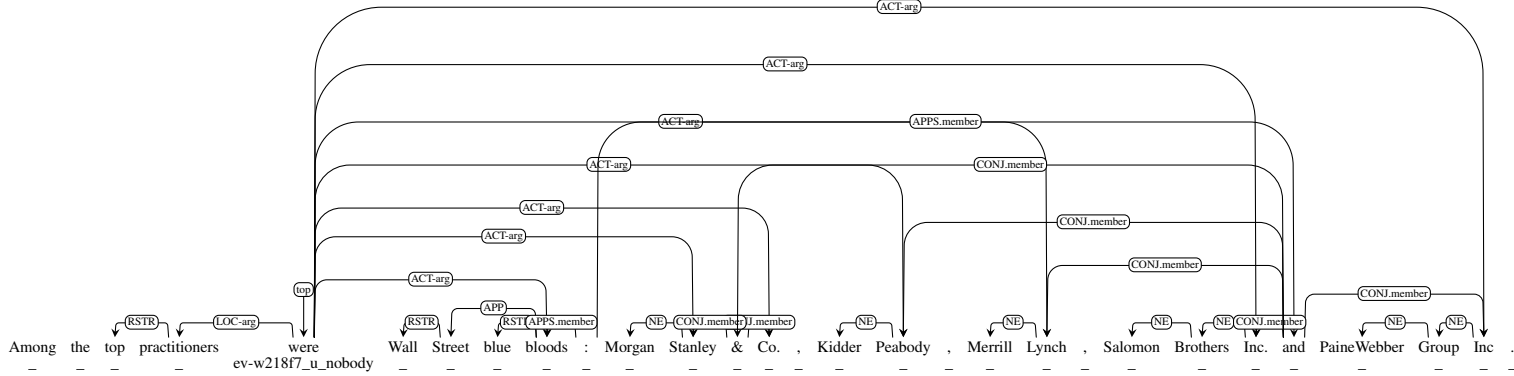
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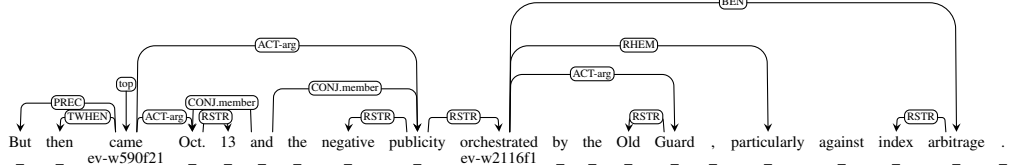
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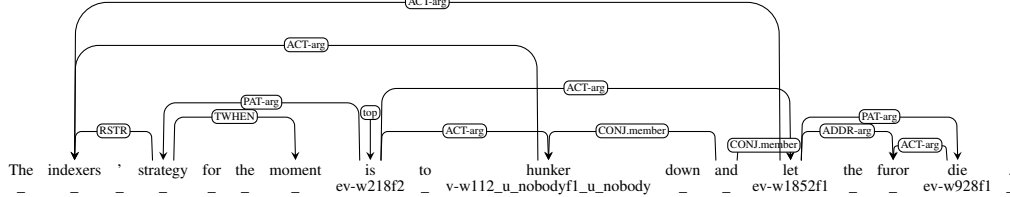
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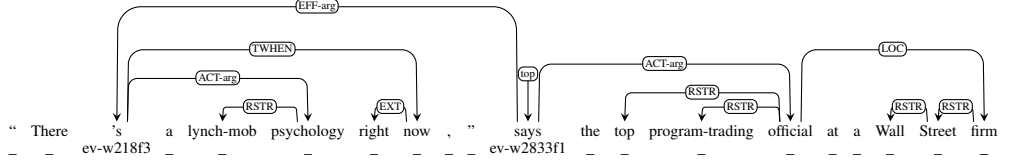
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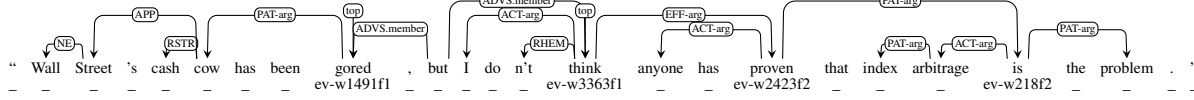
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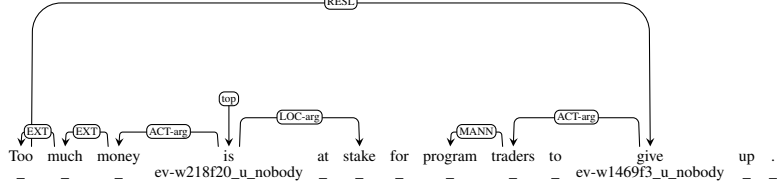
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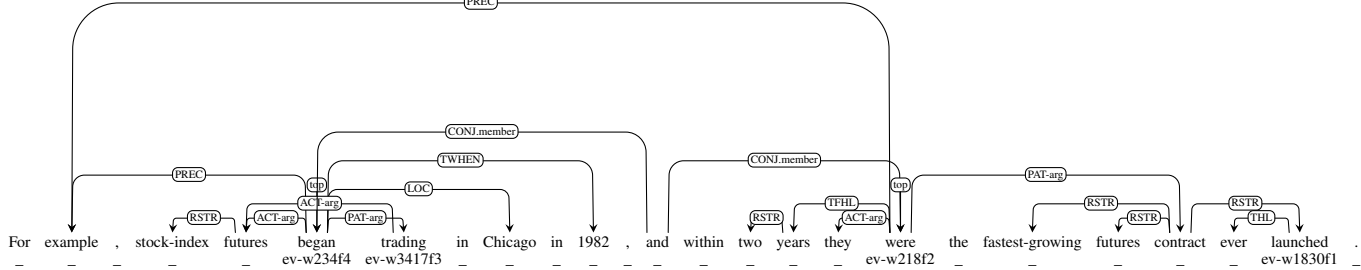
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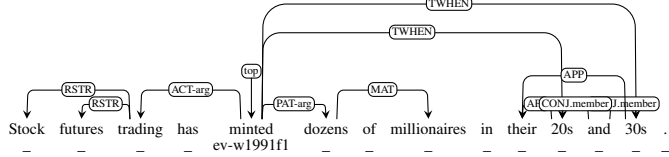
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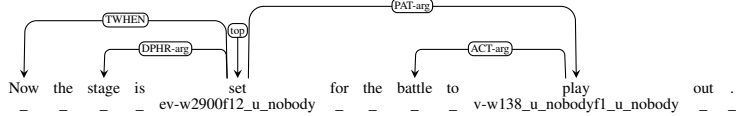
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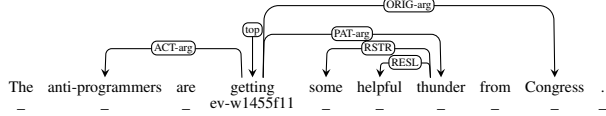
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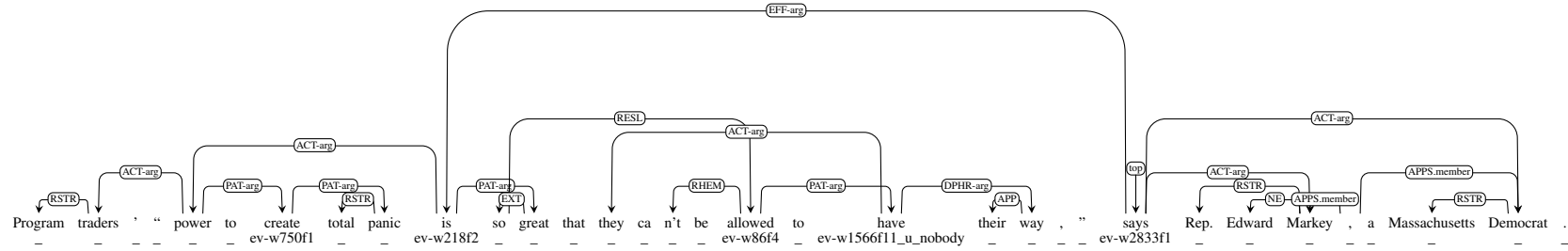
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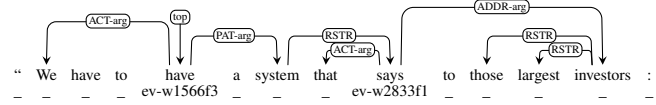
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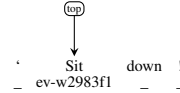
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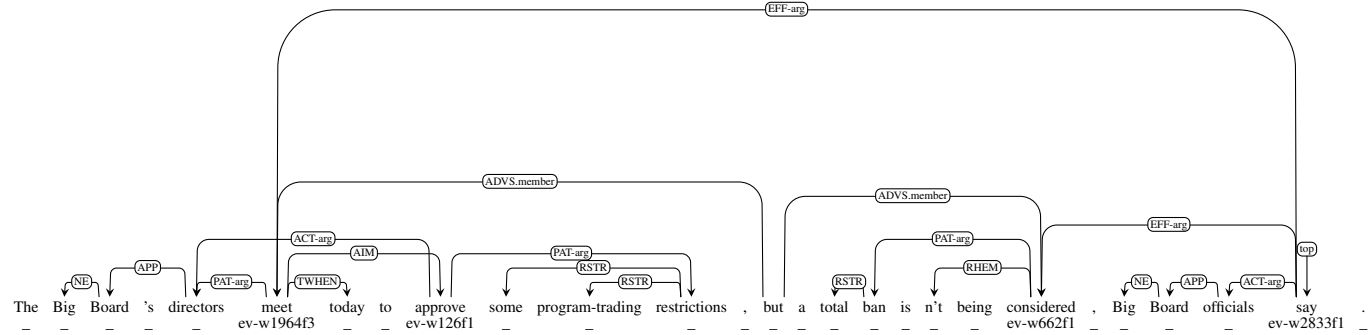
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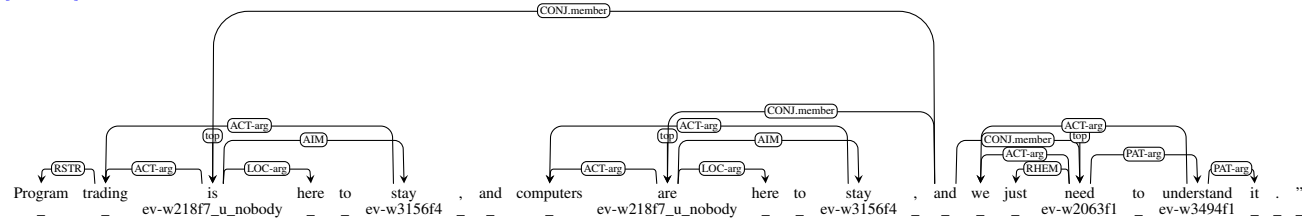
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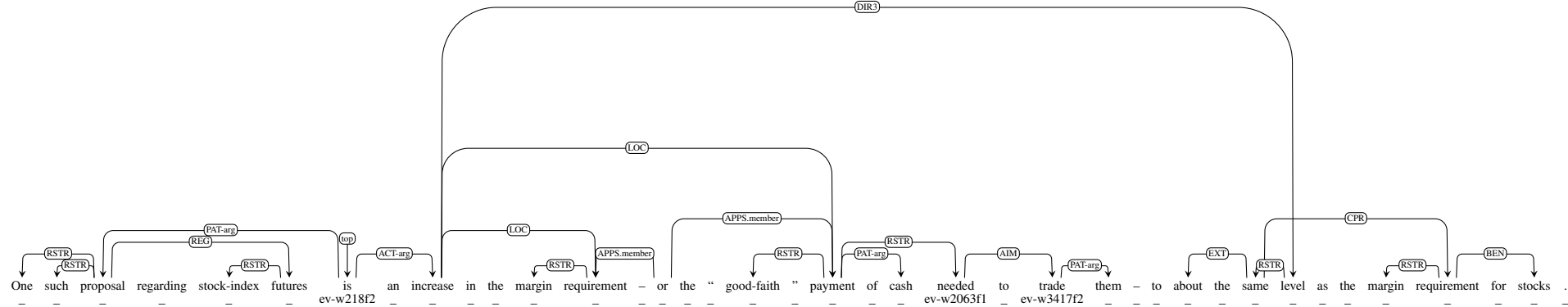
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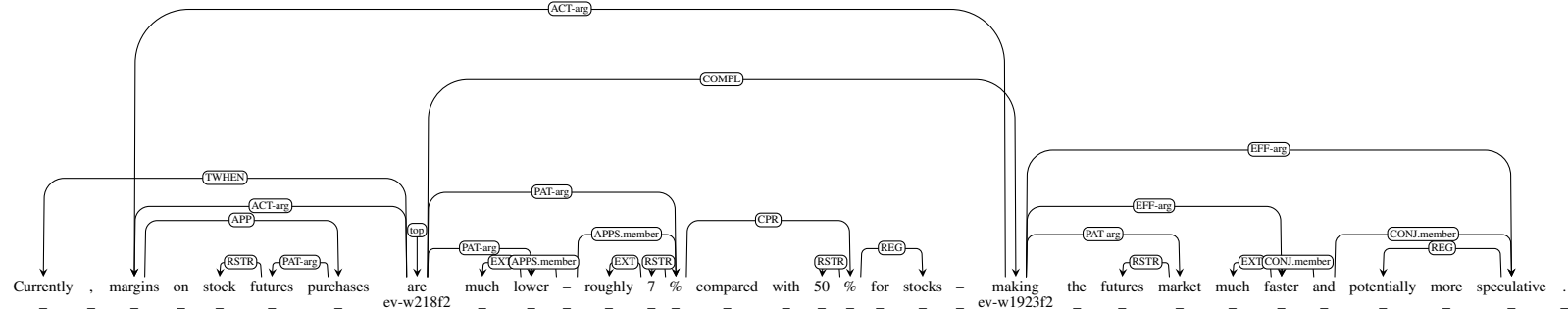
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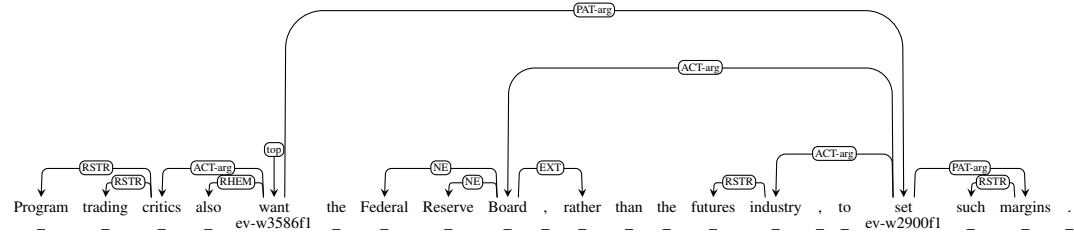
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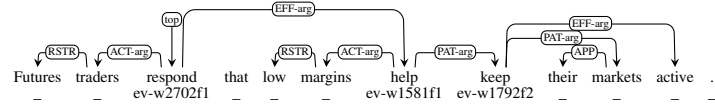
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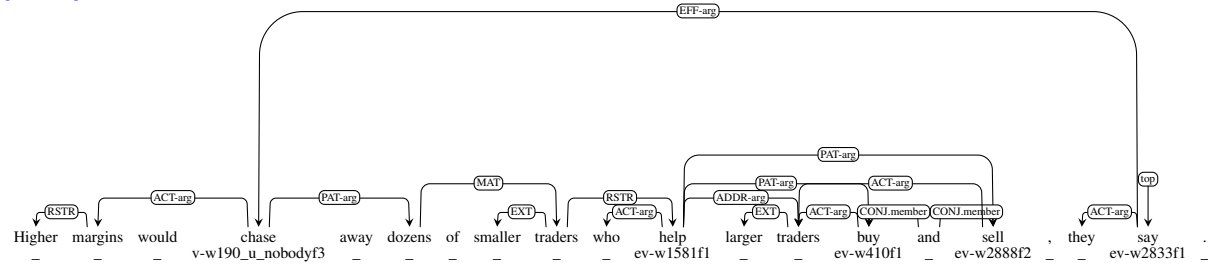
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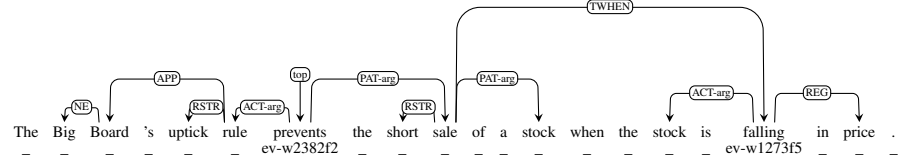
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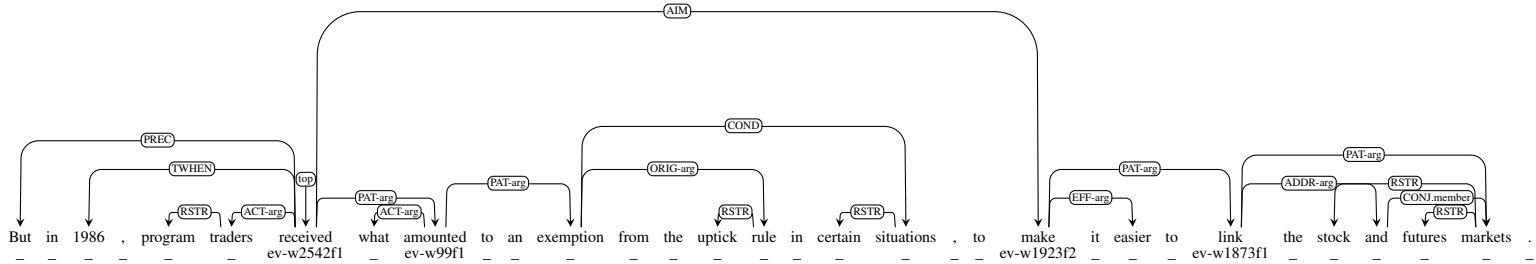
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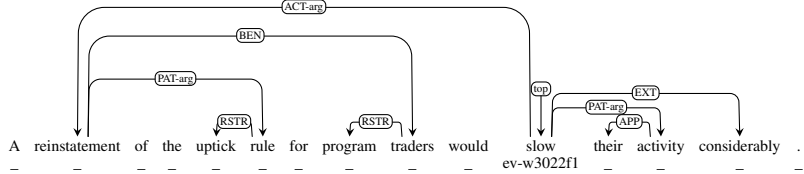
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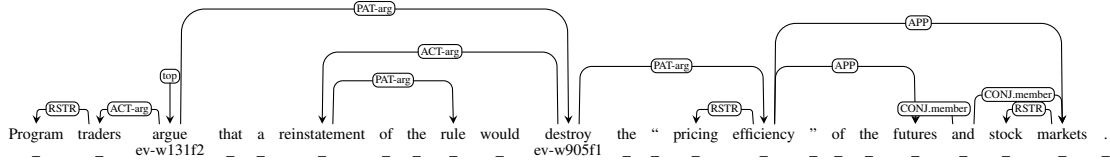
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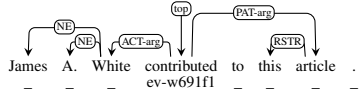
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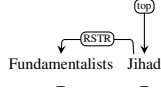
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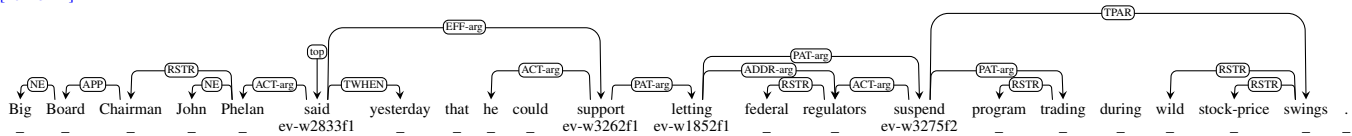
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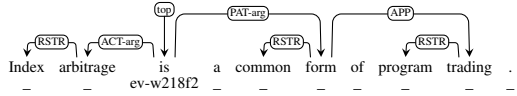
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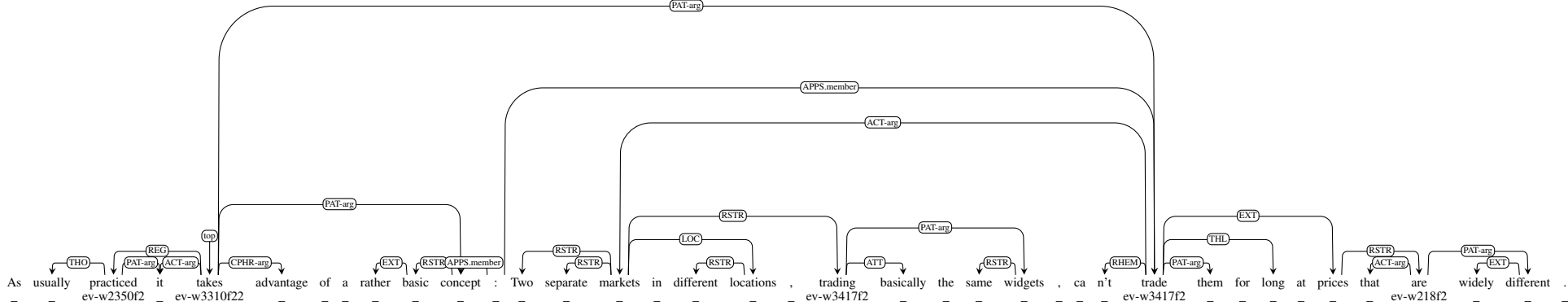
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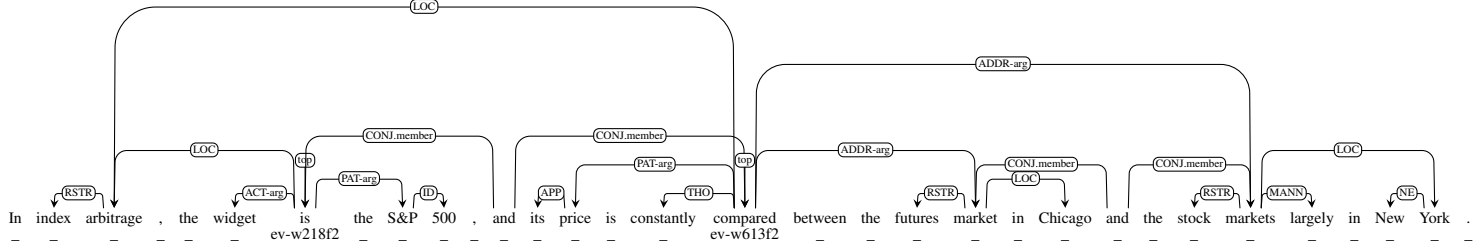
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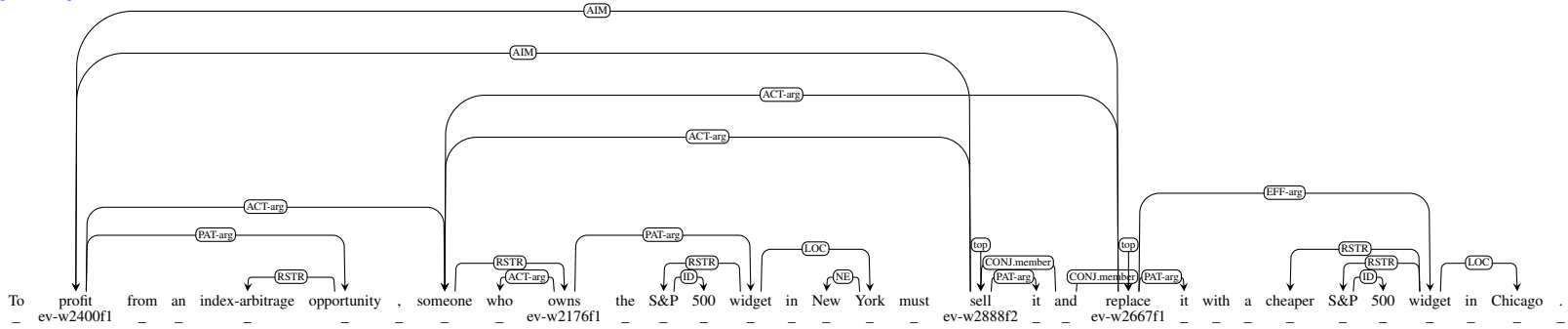
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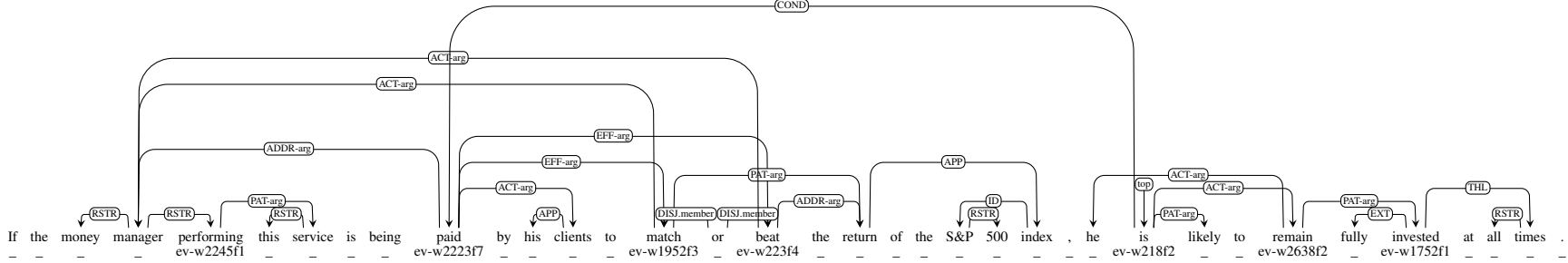
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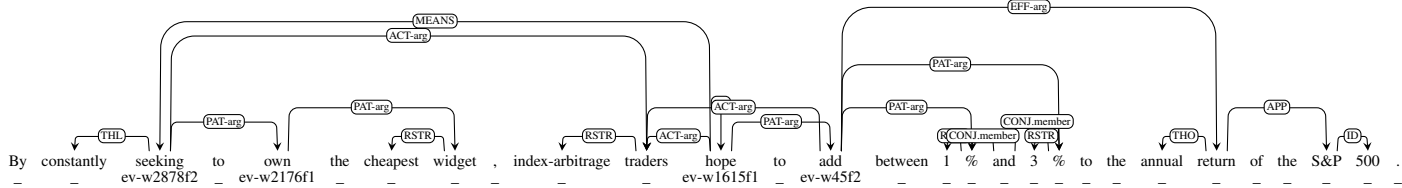
[20118127]



[20118128]



[20118130]



[20118131]

That represents a very thin " excess " return , certainly far less than what most fundamental stock pickers claim to seek as their performance objective .

[2018132]

The fact that a vast majority of fundamental money managers fail to beat the S&P 500 may contribute to the hysteria surrounding the issue .

[2018133]

As more managers pursue the index-arbitrage strategy , these small opportunities between markets will be reduced and , eventually , eliminated .

[2018134]

The current opportunities arise because the process for executing a buy or sell order in the actual stocks that make up the S&P 500 is more cumbersome than transacting in the futures market .

[2018135]

The New York Stock Exchange 's attempt to introduce a new portfolio basket is evidence of investors ' desires to make fast and easy transactions of large numbers of shares .

[2018136]

So if index arbitrage is simply taking advantage of thin inefficiencies between two markets for the same widget , how did " program trading " evolve into the evil creature that is evoking the curses of so many observers ?

[2018138]

But many of these reforms are unneeded , even harmful .

[2018139]

Reducing volatility .

[2018140]

An index-arbitrage trade is never executed unless there is sufficient difference between the markets in New York and Chicago to cover all transaction costs .

[2018141]

Arbitrage does n't cause volatility ; it responds to it .

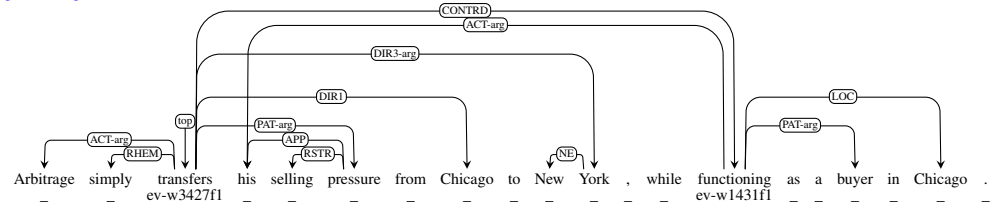
[2018142]

Think about what causes the difference in prices between the two markets for S&P 500 stocks - usually it is large investors initiating a buy or sell in Chicago .

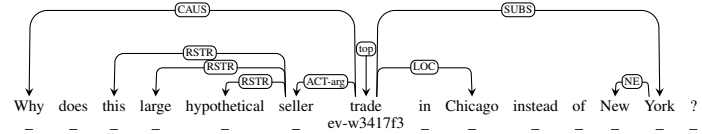
[2018143]

A large investor will likely cause the futures market to decline when he sells his futures .

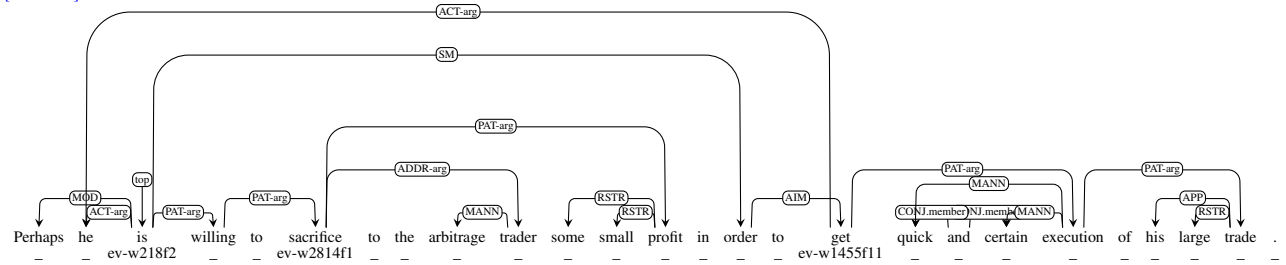
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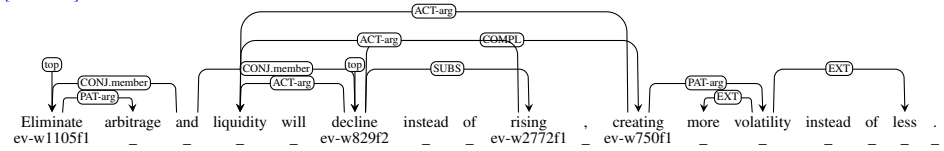
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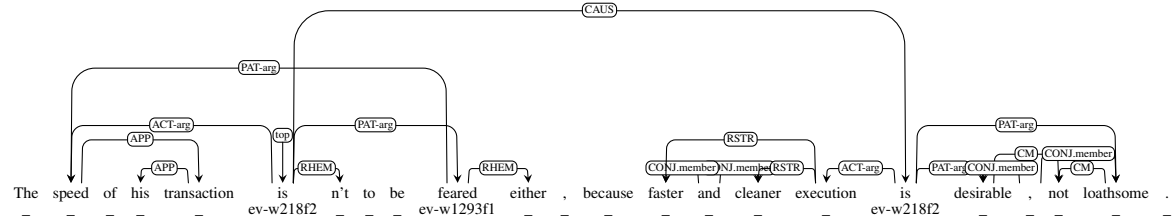
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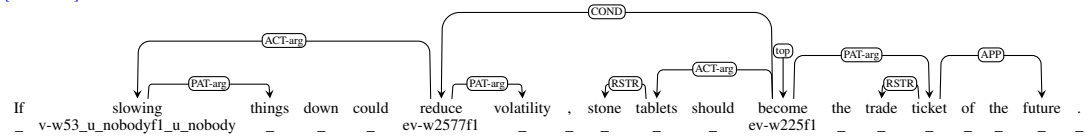
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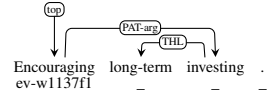
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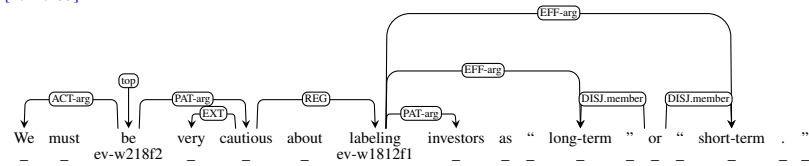
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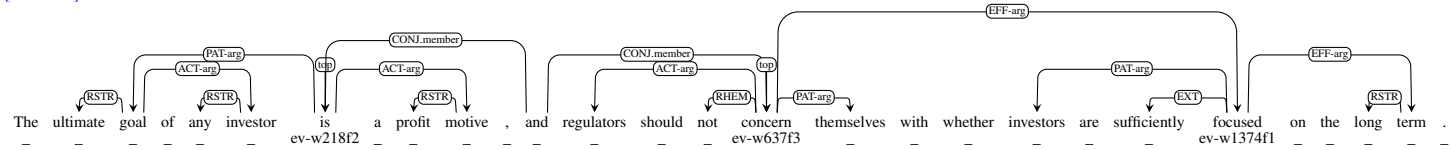
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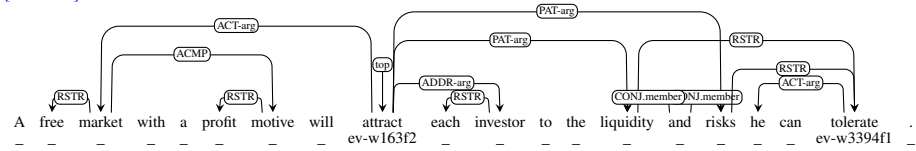
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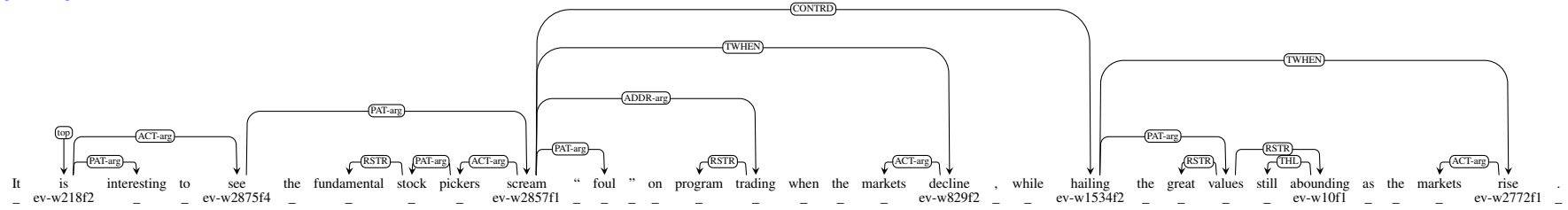
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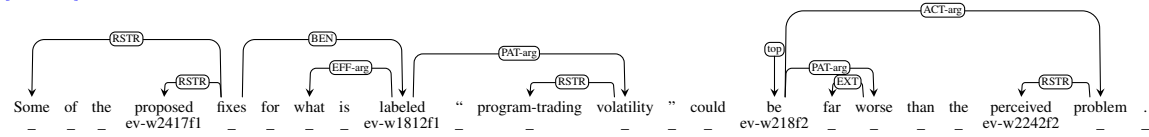
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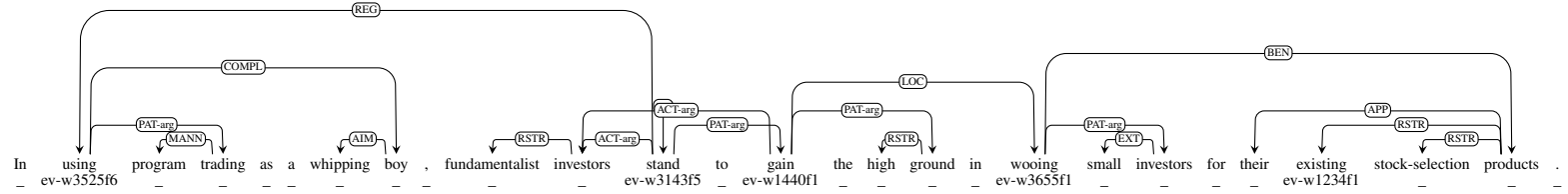
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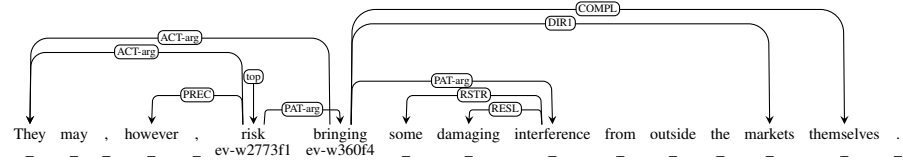
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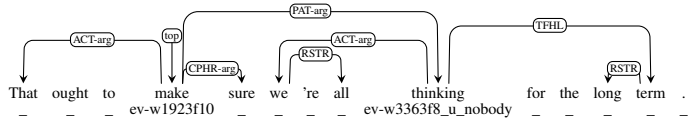
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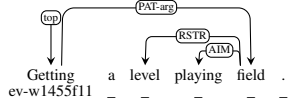
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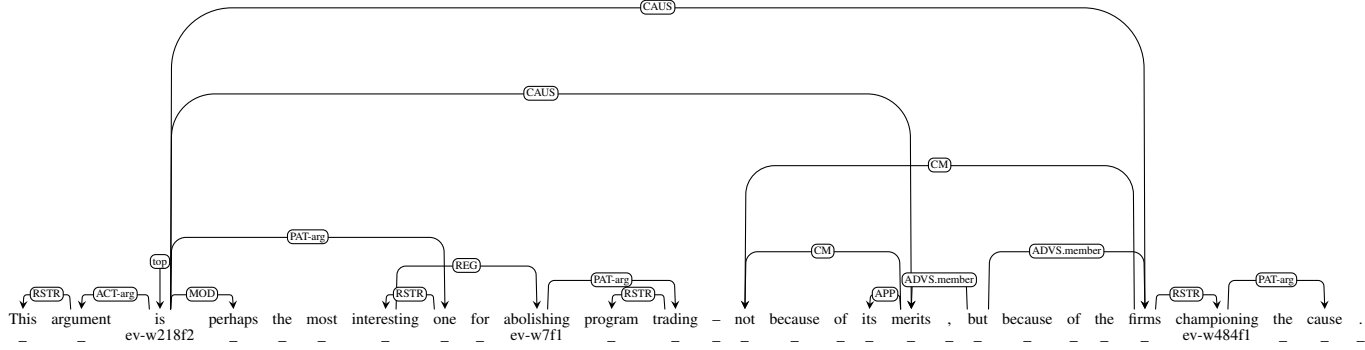
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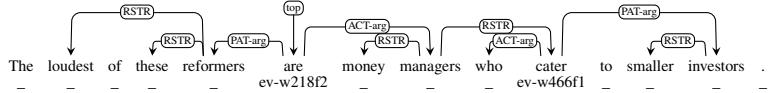
[20118168]



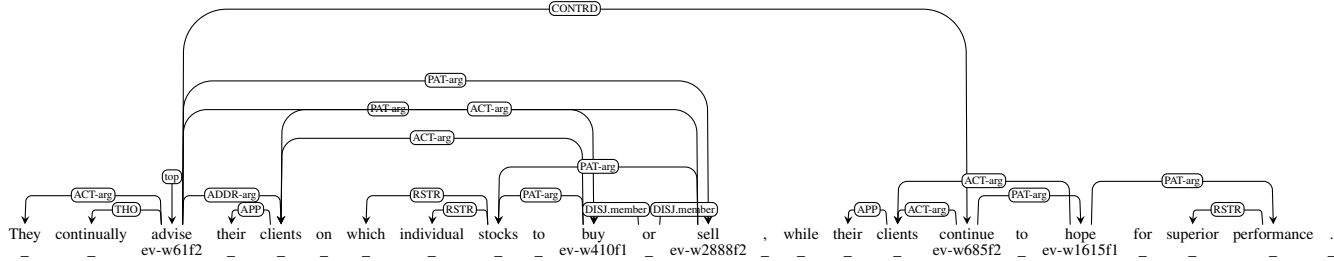
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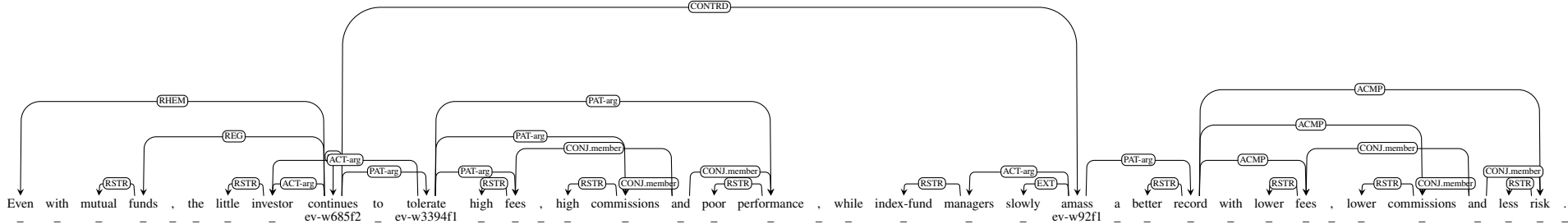
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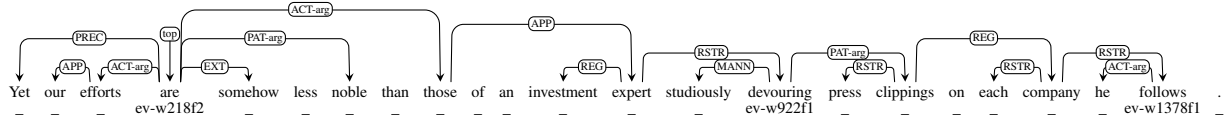
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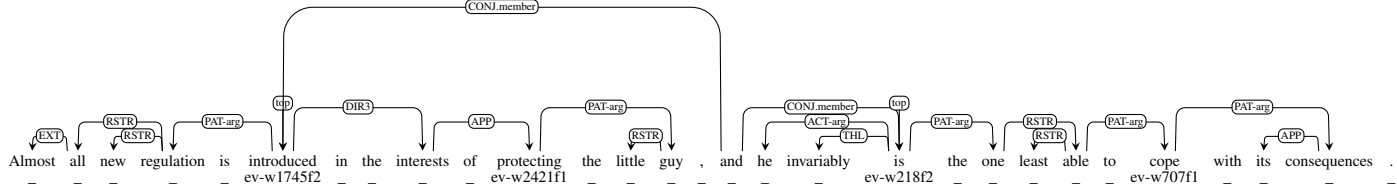
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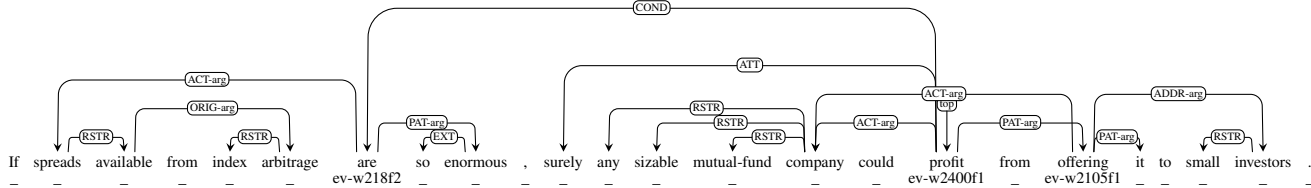
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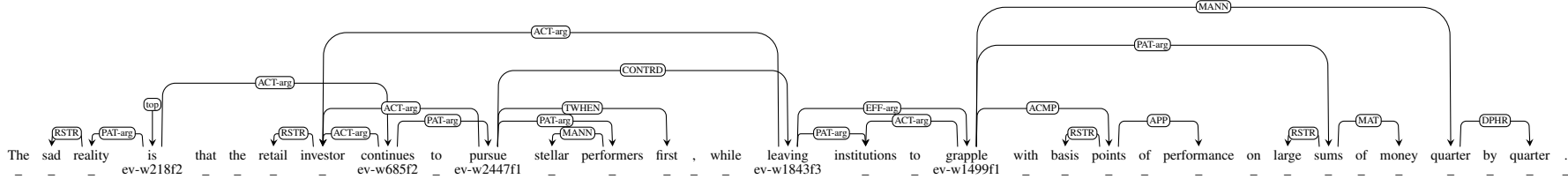
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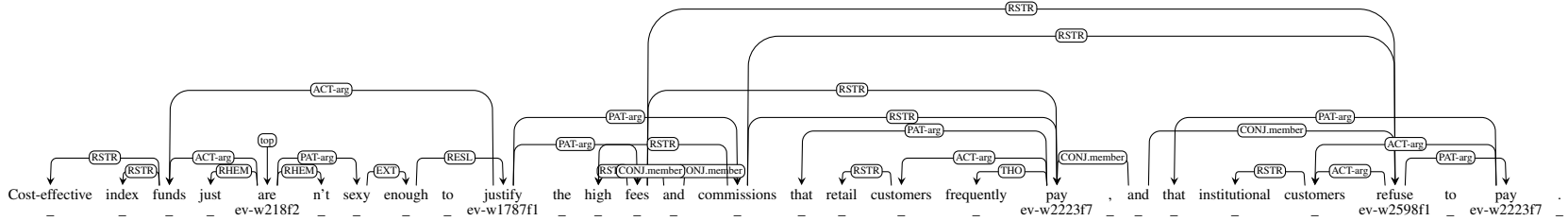
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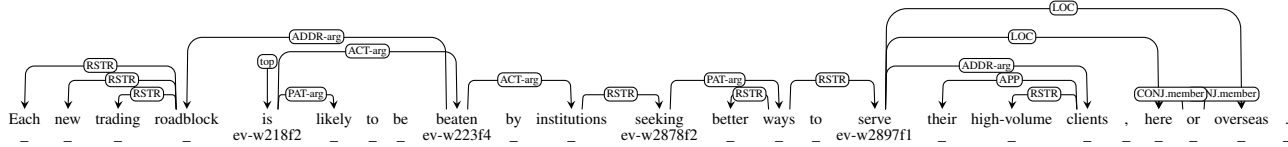
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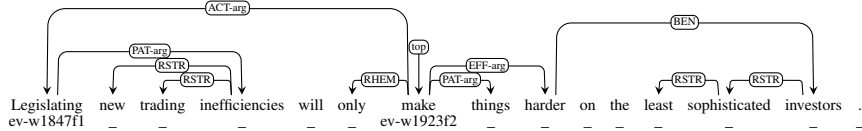
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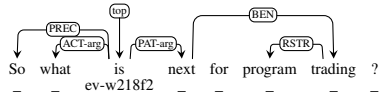
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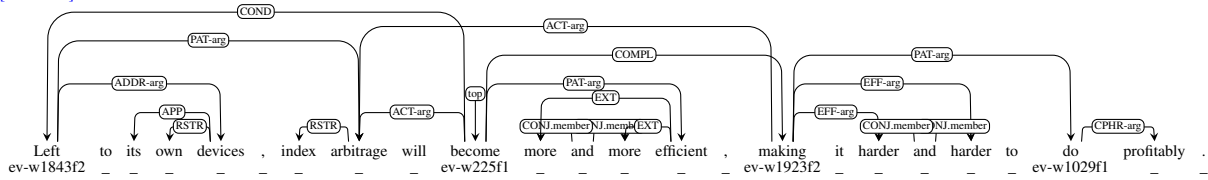
[20118179]



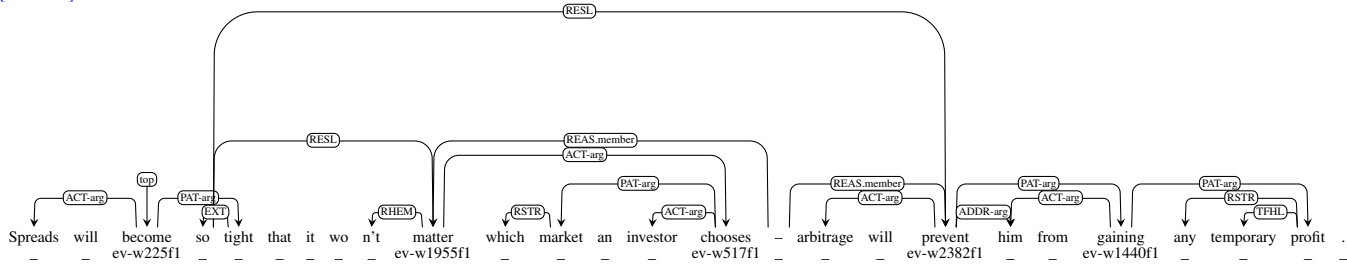
[20118180]



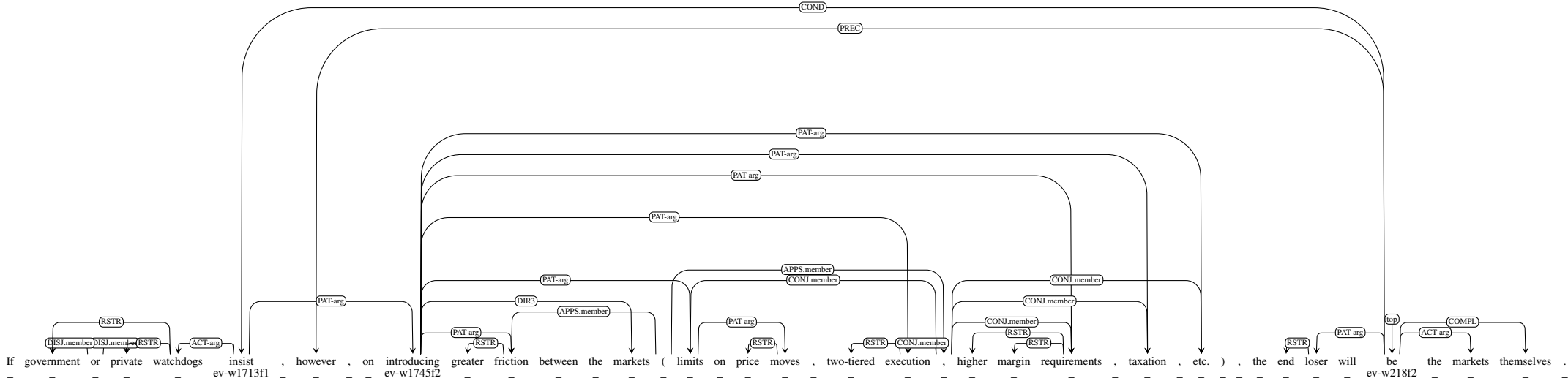
[20118181]



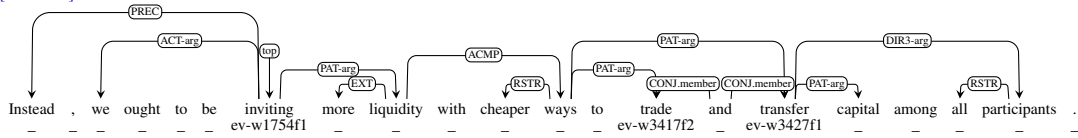
[20118182]



[20118183]



[20118184]



[20118185]

