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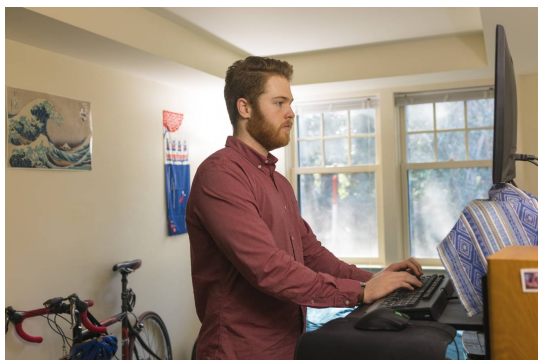
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MARKETS

Want to Be a High-Frequency Trader? Here's Your Chance

Crowdsourcing startup aims to bring high-speed trading to ordinary investors



Luke Merrick, a senior at the University of Virginia, is among the first users of Alpha Trading Labs, a startup aiming to bring ultrafast stock trading to the masses. PHOTO: MATT EICH FOR THE WALL STREET JOURNAL

By Alexander Osipovich

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Luke Merrick, a senior at the University of Virginia, sings in the glee club and recently spent a summer in Japan. His latest hobby? High-frequency trading.

The 22-year-old engineering student is among the first users of Alpha Trading Labs, a startup looking to bring ultrafast stock trading to the masses. The company says it has built technology similar to that used by industry giants Citadel Securities LLC and Virtu Financial Inc., which trade tens of billions of dollars of shares each day.

Although high-speed trading firms typically keep their technology a secret, Alpha Trading Labs is throwing its system wide open, with a programming tool kit that anyone can use to access high-powered trading machines.

The company, which launched its do-it-yourself platform in January, has invited anyone with a trading idea and coding skills to try it out. Those who craft successful algorithms can get a chance to run them and share profits with Alpha Trading Labs, whose owners have up to \$100 million to allocate to crowdsourced trading strategies.

It is an unorthodox approach at a time when the high-frequency trading, or HFT, business has been struggling due to a multiyear slump in volatility. HFT firms' revenue from U.S. stock trading was an estimated \$850 million last year, down from \$7.2 billion in 2009, according to research firm Tabb Group. Even though volatility has picked up in 2018, helping to lift traders' profits, the industry has become much more consolidated.

HFT firms use computers and speedy connections to exchanges to buy and sell shares in fractions of a second. It is a controversial business due to critics like Michael Lewis, who accused high-speed traders of exploiting ordinary investors in the 2014 book "Flash Boys." Representatives of the HFT industry reject such allegations.

Chicago-based Alpha Trading Labs says it will execute trades through computers housed in the data centers of Nasdaq Inc., the New York Stock Exchange and other markets, a practice known as "co-location." HFT firms use co-location to execute trades without being slowed down by the need to transmit electronic signals over long distances.

Alpha Trading Labs says its initial group of several dozen users includes experienced traders as well as students and academics; some are from as far away as India and Russia. None of their algorithms are running in the markets yet, but the company hopes to deploy the first ones later this year. It will screen users' strategies to make sure they aren't doing anything abusive or unlawful, the company says.

Some market veterans question whether amateurs can become successful high-speed traders.

"HFT is probably the hardest thing to do in quant trading," said Manoj Narang, founder of quant hedge fund MANA Partners LLC. "It requires very deep expertise in both markets and engineering."

Alpha Trading Labs says its interface makes HFT much more accessible, by eliminating the need for users to worry about the behind-the-scenes technology needed to execute speedy trading strategies.

Alpha Trading Labs' main investor is CMT Group, a firm founded by two veteran traders in 1997, with businesses that run the gamut from high-speed trading to venture capital to real estate. It was an early investor in Dollar Shave Club, the razors-by-mail service acquired by Unilever PLC for \$1 billion in 2016.

Several years ago, Chicago-based CMT was looking to expand its trading business. But poor market conditions were making it tough to find winning strategies. So instead of paying headhunters to recruit traders, it decided to seek its talent online, inviting novices and industry outsiders.

"The trading business has a notorious recruiting problem," said Max Nussbaumer, a member of Alpha Trading Labs' board. "Recruiting people is expensive, and there's a pretty high rate of failure."

High-frequency traders often have degrees in subjects like physics and mathematics. Strict noncompete agreements make it difficult to poach talent from rival firms.

Another reason that crowdsourcing appealed to CMT: Its founders felt that bringing greater transparency to high-speed trading would help rebut critics like Mr. Lewis.



For Mr. Merrick, quant trading isn't so much about the greed or the betting. "You get direct feedback, and it's unbiased," he says. "You either make money or you lose money." PHOTO: MATT EICH FOR THE WALL STREET JOURNAL

Alpha Trading Labs isn't the only firm to try such an approach. Quantopian, a do-it-yourself tool for developing quantitative trading strategies whose investors include hedge-fund billionaire Steven A. Cohen, launched in 2011 and now counts more than 180,000 members. A fund powered by Quantopian's users lost about 3% in its first four months of trading, The Wall Street Journal reported in November, although a person familiar with the fund said it is up this year. Other rivals include QuantConnect and CloudQuant.

Alpha Trading Labs tried to set itself apart by focusing on HFT, a subset of quantitative trading. Both use computers and insights gleaned from market-data analysis. But while quant strategies can involve holding stocks for hours, days or months, HFT strategies often feature buying and selling in less than a second.

To let users develop such strategies, Alpha Trading Labs provides them with historical data on U.S. stock prices that show price fluctuations down to a billionth of a second. Quantopian, by contrast, provides minute-by-minute data.

Mr. Merrick, of the University of Virginia, is still getting the hang of the company's tool kit and said he hasn't developed a "million-dollar idea." He previously interned with a quant hedge fund and dabbled with Quantopian before trying out Alpha Trading Labs this year.

Quant trading is "really cool," said Mr. Merrick. "For me, it's not so much about the greed or the betting," he said. "You get direct feedback, and it's unbiased. You either make money or you lose money."

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