MODULE 1 UNIT 2
Video 2 Transcript

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NIR VULKAN: Steve Mobbs is the co-founder and partner at Oxford Asset Management, which was launched in 2004. Oxford Asset Management, or AM, is a hugely successful quantitative hedge firm that manage billions of dollars. Prior to funding Oxford Asset Management, Steve worked briefly in the oil industry, after which he joined Credit Suisse First Boston, and worked as an arbitrage trader and researcher. Steve also spent a number of years as the Head of Proprietary Trading at Deutsche Bank, and he is considered an expert in his field. In this video, Steve shares with us his thoughts on the merits and weaknesses of algo trading, as well as where the opportunities in this field may lie.

STEVE MOBBS: My name is Steve Mobbs. I'm a founder/partner of Oxford Asset Management. We set the company up more than 15 years ago now, we've been trading for most of that time. Prior to that, I worked for a number of years in investment banks, in various trading roles.

What, in your opinion, are the strengths and weaknesses of algo trading?

STEVE MOBBS: Well, the big advantage of systematic trading, is that it allows you to do a lot of things at the same time. You're not… you're not constrained by, you know, the things that you have to do that take a lot of time, so you set something up and it… it does it forever. You know, you have a bunch of rules, a bunch of regularities and it would… the models, the computers would just, just trade them.

So, that gives you enormous scope to look at a lot of stocks, a lot of securities at the same time. Compared to discretionary trading? Well, I think us sort of old-style discretionary traders would probably feel that you perhaps lose something in tender loving care and, you know, your ability to, perhaps in nuance, but you know, I think you more than make up for that in terms of the scope it gives you, as I say, to cut across so many different securities and, you know and… and execute them easily.

Algos can make money in three ways: by predicting markets, improving execution, and having some advantage in risk management. What has your experience been with these three methods and where do you think the most opportunities lie?

STEVE MOBBS: Well, my company was set up and almost exclusively trades on the basis of predictive algorithms from systematic regularities that we identify. I think I'd have to say that the first one, the identifying of opportunities, was the key thing. We do also, in fact most people these days, you know, will do their execution predominantly through… predominantly through algorithms. In many ways, that's a sort of labour saving device. It's a lot easier than, you know, having somebody pouring over the exchange and ringing brokers all day long. An additional advantage though, is that it allows you to roll in short-term forecasting models that you have to improve your execution by making use of short-term alpha, short-term forecasting signals.

Now, the third thing you mentioned was risk management. I guess, we do make use of quantitative, I mean, we build model… risk management models. But, I wouldn't have thought of that as being a core part of quantitative trading, because I think people who are not quantitative traders would use quantitative techniques for risk management, as indeed we do. To some extent, we integrate the risk management in with the trading. So we will,

as we trade, you know, we will be calculating the incremental risk in real-time and altering our trades according to that… according to that calculation. But, I think risk management, in general, probably sits slightly outside of, you know, what I think of as quantitative trading. I mean risk management, I think, has always been predominantly a quantitative game and I don't think that there's any great change in that over the last five or 10 years.

Do you have any examples of trades where the algorithm did really well, or trades where it did badly or not as expected?

STEVE MOBBS: I guess things going well is less interesting really, so I won't dwell on that except to say that, you know, pretty much everything we do is a result of algorithms, and we've been going for quite a long time now, and we have a decent amount of money under management. So, I guess at some level it must be successful.

Possibly the most interesting example of algorithms going wrong in our space was what happened in 2007, when a lot of people who did very similar things to us… there was a lot of unwinding of rather crowded and similar positions, and firms like us lost really a quite implausible amount of money in over quite a short period. Now, I'm not sure that that was algorithms per se, although there was an automatic element to the unwinding, but it was certainly a very painful, interesting period, and one that I hope not to relive in a hurry.

NIR VULKAN: Did you understand all of the concepts in this video? If you would like to review any of the questions, click on the corresponding button.