

In case you missed it, the @AP twitter account was hacked , which resulted in a tweet that sent markets spiraling down only to recover a few minutes later once it was revealed that the tweet was a fake. Here is more [info](#).

Why did the market head lower so quickly ? This is from [Paste Magazine](#)

"The events last Tuesday were likely caused by the news-reacting algorithms that are designed to electronically read and interpret machine-readable news," said in an emailed response by Irene Aldridge, a hedge fund consultant on algorithms and author of *High-Frequency Trading: A Practical Guide to Algorithmic Strategies and Trading Systems*. "Most of the web content is machine-readable, so lots of algos are built on reading and reacting to news such as the Twitter hack... Clearly in the Twitter case, trading machines did not ascertain credibility of the tweet,"

So how does the future of HFT look in light of Tuesday's AP hack tweet incident?

Aldridge said in terms of the technology, "going forward, many algorithm designers will take into account the Tuesday situation, and will build ever more sophisticated approaches."

There is no question that there is an ongoing arms race between algorithm designers, as well as a technology race to improve Language Processing and Translation abilities (disclosure, im an investor in [Linguasys](#)). Billions of dollars are being invested to make trading without humans faster, cheaper, smarter. The problem is that no matter how smart you make machines, they will never be smart enough in our lifetime to detect all levels of deceit and fraud. Particularly online.

No one has any idea, other than the traders using the algorithms, which twitter accounts the algorithms follow and read. The same with websites. Which do they track and read ? If its worth it for someone to hack the @AP twitter feed in order to attempt to destabilize the markets why wouldn't the same people or others with similar goals set up thousands of twitter accounts that for some extended period are a solid source of news and information, attempting to build a following that include algorithms reading their feed , knowing that at somepoint they will tweet market moving fake information ? (Note, you dont have to actually follow an account to get access to their feeds, there are services that provide the twitter hose to financial companies)

It costs absolutely nothing to try to make this happen. If you follow the writings of Nanex, you know that mini flash crashes happen in individual stocks all the time. That there are algorithms fighting algorithms all the time. Its to the point where it sounds like the plot of a science fiction movie and it is.

Our markets are at risk. I can't quantify how big a risk there is, but I can tell you this, as long as there are algorithmically driven trades that happen in thousandths of a second, we can not eliminate that risk. As long as that risk exists, there is a significant opportunity for hackers , terrorists (yes terrorists) and crooks to negatively impact our market to the tune of billions of dollars and possibly . This is the rise of the software controlled market.

There is no such thing as bug free software. If you are an investor, learn how to hedge.