**High-frequency trading can destabilize markets and disadvantage retail investors.**

**No author 'No date** [No author; No qualifications found; No date; Has High Frequency Trading Ruined the Stock Market for the Rest of Us?; No publication found; https://www.investopedia.com/financial-edge/0113/has-high-frequency-trading-ruined-the-stock-market-for-the-rest-of-us.aspx; Accessed 06-12-2024; cut by AI] \*double quotes converted to single quotes

If you are an investor, high-frequency trading (**HFT**) is a part of your life even if you don't know it. You've likely purchased shares offered by a computer, or sold shares that were purchased and instantly sold by another computer. HFT is **controversial**. Traders disagree and studies contradict other studies. Regardless of the opinions, what is most important is how HFT affects your money.

High-frequency trading (HFT) is a broader term for various trading strategies that involve buying and selling financial securities at extremely high speeds. Using algorithmic trading, computers can identify market patterns and utilize automated and pre-programmed instructions to execute buy and sell orders in a matter of milliseconds.

One strategy is to serve as a market maker, where the HFT firm provides liquidity on both the buy and sell sides. By purchasing at the bid price and selling at the ask price, high-frequency traders can make profits of a penny or less per share. This translates to big profits when multiplied over millions of shares.

Because most trading leaves a computerized paper trail, one would think it would be easy to look at the practices of high-frequency traders and answer this question. However, HFT companies are reluctant to divulge their trading activities, and the large amount of data involved makes it difficult to form a cohesive picture.

**Critics** of high-frequency trading point to the **flash** **crash** that occurred on **May** **6**, **2010**. The **major** **indices** mysteriously **plummeted** 5-6% in **minutes**, and just as inexplicably, quickly **rebounded**. **Shares** of individual companies were **executed** at prices more than 60% **off** their **value** just moments before. Some trades executed for a penny or $100,000—**stub** **quote** **prices** that were **never** **intended** to be filled.

The **Securities** **and** **Exchange** **Commission** (SEC) issued a **report** **blaming** one very large trade in the S&P e-mini **futures** contract, which set off a **cascading** **effect** among high-frequency **traders**. As one **algorithm** sold rapidly, it **triggered** another, creating a **financial** **snowball**.

Following the flash crash, the SEC developed new circuit breaker rules that would impose a **trading** **pause** when a **stock** **moves** **up** **or** **down** by 10% or more within a five-minute period. Many **critics** asked whether imposing tighter regulations on high-frequency traders made sense, especially since smaller, less visible flash crashes happen throughout the market with regularity.

What is important to most of the investing public is how high-frequency trading affects the retail investor. This is the person whose retirement savings are in the market, or the person who invests in the market in order to gain better returns than the near non-existent interest that comes from a savings account. A 2014 study shed some light on this question.

Former economists for the Commodity Futures Trading Commission (CFTC) studied HFT firms over a two-year period and found that revenue was concentrated among a handful of companies in a winner-takes-all market structure.﻿﻿

Studying the S&P 500 e-mini contracts, the researchers found that high-frequency traders made an average profit of $1.92 for every contract traded with large institutional investors and an average of $3.49 when they traded with retail investors. The paper concluded that these profits were at the expense of other traders and this may cause traders to leave the futures market.﻿﻿

Unchecked, the proliferation of high-frequency trading could risk creating the perception that the small investor cannot win. Governments have sought to rein in HFT firms, for example, by proposing a per-share trading tax. In 2012, Canada raised fees on market messages such as trades, order submissions, and cancellations, which disproportionately hit HFT firms because they send more messages than other traders.

Despite fears over high-frequency trading, there is also evidence to suggest that HFT firms simply don't pose the threat they once did. Revenue and profits have dwindled, making it tougher for HFT firms to survive. Industrywide, annual revenue is estimated at $6.1 billion in 2021, down considerably from more than $22 billion in 2011.

U.S. Securities and Exchange Commission. 'Findings Regarding the Market Events of May 6, 2010,' Pages 1-3.

Matthew Baron, Jonathan Brogaard, and Andrei Kirilenko. 'Risk and Return in High Frequency Trading,' Pages 3, 30.

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