High frequency trading

Finance

Module Demerits of High Frequency Trading Those that get involved in high-frequency trading are aware of the impact it has on them. For the average investor, there are concerns that HFT is making things difficult and volatile for them instead of leveling the playing field for everyone (Aldridge 60). The problem arises when companies have to continue making use of their complex computerized algorithms to meet the main demands of the investors. They can quickly identify the ability of an individual wanting to buy shares, and buy them ahead of the trader and sell at higher prices (Kirilenko, Kyle, Samadi & Tuzun 22).

Another disadvantage that faces the average investor is the ability to withdraw and initiate thousands of trades at multiple pricing points within the same period. This makes it difficult to understand what is or is not legit (Petajisto 273). Further, the ability of these programs coming up with the upper buy range and lower sell range can create security for one individual and insecurity for the other. It becomes very difficult to have the average investor coming up with a substantial amount because the investors privy with HFT could sell below the limit forcing an individual to pay more compared to normal circumstances. The fact that they attain the information seconds earlier allows them to have an edge that disadvantages the investors, exposing them to risks (Aldridge 65; Kirilenko, Kyle, Samadi & Tuzun 25).

Many will look at this from the angle of having more to do with one’s trading sessions, but the unleveled playing field makes it worse. The securities exchange should rein on such behaviors and provide the investors with a fair chance of meeting these ideals.

Regulating HFT

Regulations are necessary in this sector. Investors need to operate within similar platforms as a way of encouraging them to make better use of the skills present. One thing that can be done is creating stronger controls that will create safety nets around the trading options (Aldridge 67). This will enable the government to provide the stock exchanges with the required platforms that will help reduce the market instability through the proper utility of the incentives provided. Markets will also benefit a lot if information was not disseminated before hand, allowing all traders to benefit from what they possess, rather than generate new platforms that do not define the market as a whole (Petajisto 274). Ideally, the traders will have to get clearing before some of the tools can be used, something the government needs to pay great attention to. By limiting the risks, it is very easy to avoid any form of unfair advantage to a few of the investors while others are affected by the fast trading methods (Aldridge 68).

The government needs to play a huge role in defining the risk controls that ought to define the participation of all trading stockbrokers (Aldridge 70). The stringent process of defining and determining the patterns of trade across the country need to be similar to avoid having difficulties in dealing with the competition. Promotion of robust internal risk management attributes will be essential in creating confident controls over the algorithms and making strategic inputs protect regular investors (Kirilenko, Kyle, Samadi & Tuzun 32).

Works Cited

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