Free high speed trading essay example

Business, Marketing

High speed trading is an illegal practice by some firms that involves the acquisition of useful information in investing, prior to knowledge of the same by other equally important market players. It usually involves the masking of information such that some participants are unaware of such information hence discriminating them from any financial benefits.

It may involve the creation of an illusion of rampant activity in the stock market through placement and cancelling of transactions. This may give the impression that such a market is lucrative to a potential investor. This significantly affects the exchange. Potential investors who are unaware of the malpractice will invest heavily and but shares, for example. The shares may be non-performing hence resulting in significant losses to such an investor. The person selling such shares may make significant profits from this illegal practice. The practice affects the natural laws of demand and supply that are supposed to dictate the prices of shares and stock (Amuk and Saluzzi, 2013).

The knowledge of future trends sets an unfair playing field for the persons trading and in some instances causes some of them to exit the market. This makes the public to lose faith in the sovereignty of the stock exchange and expose it to the risk of manipulation by specific persons or institutions. The malpractice is associated with insider trading between various firms. The malpractice also affects investment banking since it makes potential investors to lose their faith in the investment bankers. Most of them tend to believe that if the market is penetrable through insider trading and high speed trading, then the security of their investment is not assured.

Most high-speed traders are the brokers who use after-trading information to

make huge profits at the opening of business the following morning. The practice is most common in investment banks. The high speed trading results in multiple returns every day. The investment banks utilize high-speed computers to give the illusion of multiple market transactions under a given category of the market. It causes the stock price to effectively rise resulting in immediate profits upon sale of such stock. The fact that the stock seems to have a lot of market activity is enough to reassure investors that it is a worthwhile investment, much to their dismay. High-speed traders make use of special programs and highly effective computers to acquire such private information and to use it to the investment bank's advantage. It is closely linked short timing intervals that determine the making or breaking of an investment.

Individual investors are mostly unaware of the practice- whether it is happening or even how it occurs. However, many keen investors will notice the peculiarity of the situation when it occurs. This is because no single investment bank can be 100% effective in its predictions and a consistently spot-on prediction may cause one to raise an eye. Ordinary investors suffer the effects of HST (high speed trading) in a number of ways. Mostly the change of prices that occur due to high speed trading is so high that they cannot respond in time. This is because the change is so fast that they cannot withdraw their orders. Great losses occur, especially where huge investments are involved. However, various firms and investors have found ways to circumvent this malpractice (Aldridge, 2013).

The resolution of the issue may lie in the use of high technology computer software to prevent its occurrence. Other investors have learnt to relocate or

use different and often lengthy trading routes. Other investors put out a large amount of capital as a test of liquidity then sending them to exchanges that are as far as possible. Investors can make sure they use up-to-date technology that will enable the fastest speeds compatible to those utilized by high-speed traders. This will make them to be equally competitive in placement of orders and cancellation of the same. This will involve the use of equally competitive algorithms to aid in the prediction of the prices of stock. The resolution to buy or sell is then made promptly by the same programs. High-speed traders reduce the profits that would otherwise go to individual investors by the mere fact that they are faster. Another way of avoiding losses is to trade in low stocks since high speed trading only affects large stocks. Unfortunately, this is not an alternative for some stocks since they can only be traded in form of large stock.

Ethics has its role to play as far as the response of an investor is concerned upon knowledge that his or her investment bank uses high speed trading to gain competitive advantage. Some may not mind the extra profits while others may choose to exit based on their ethical principles. However, much as high speed trading is an avenue for trading firms to make huge trading profits, only a small percentage have the infrastructure to facilitate its exploitation. However, the number of people who lose are more than those who gain hence the measures to illegalize it in exchange markets (Patterson, 2012).

References

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