

A Consultant's View

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High Speed Trading

Recently, there has been a bit of discussion about “high speed trading”. Some people are quite upset about the fact that this type of trading is actually happening. However, competition and the chaotic nature of life and the market will limit the effect.

It is impossible for outlaw trader and have all producers to sell directly only to customers. There were those who have tried to outlaw traders, merchants, and middlemen and life

fell apart. Any society will need traders who can bring in outside goods and services. Traders and middlemen have always pushed for faster and faster ways to trade.

The problems reported with high speed trading

don't have anything to do with the speed of the trading. Instead, the claim is that some high speed traders are exploiting the lack of knowledge that some of their customers may have about pricing. The problem is not the high speed trading, but the violating of the trader's responsibilities to their clients.

The reports indicate that some of these high speed traders have made a lot of money through their trades. The amounts while in the billions, is still quite a small percentage when compared to the profits that value investors are making. Traders do not make the profits that investors do.

All trading firms are focused on optimizing trades. Any small advantage that one trading firm has is always only a short term advantage. Every other

firm will work to level any advantage someone else has. Likewise, the large mutual fund companies are constantly working to make sure that the trading firms they use are not taking advantage of them. The constant effort by every trading partner to “tilt” the market in their own direction means that the market will be leveled over time. Any company currently making a lot of money by exploiting a price difference will lose that advantage quickly.

Investors Make More Profit

The deeper question is whether or not high speed trading is fundamentally taking advantage of other people. In every market, there is the need for someone who will put buyers and sellers together. Such people rarely make a lot of money for very long.

They don't hold a stock long enough to make the serious money.

The chaotic nature of the stock market also works against the traders. Going forward, the traders will not be able to find the advantage they once had. Yet, they will continue to have the pressure to make the same profit. That will put them where the power of the chaotic nature will work on them. People who trade only once a month will make as much profit.

Do we need government to act? Typically, government action takes several years. Competitors and customers can make changes in weeks. The best thing that government can do is to mandate transparency. We can be sure that if a trading firm sees that they are losing millions to someone else, they will quickly invest the money needed to recoup that and deny the advantage the other has.

Forecasting Disasters

Between the tornados bouncing over the country, the earthquake in Chili, volcanoes erupting, and the landslide wiping out a village, we have had a number of disasters. It can be easy to see that a disaster will happen but very difficult to forecast when. Business disasters are equally difficult to time.

The landslide was predicted some ten years in advance, but nobody could predict when it would happen. Likewise, people can see that southern California and Washington are due for a major earthquake, but nobody can see when and where. We live where disasters can happen for many good reasons. Good things happen between the disasters.

The problem with forecasting disasters is that disasters are not linear events. There are some signs that lead up to the disaster, but these signs happen to many places which do not have disasters. Earthquake prediction is some of the most challenging. Animals can predict some earthquakes while others happen without the animal behavior changes.

Business disasters happen for any number of reasons, employee theft, natural disasters, or sudden loss of key employees. Nearly every business is vulnerable to disaster. We live on the edge because that is where the profit is. To cope, we make disaster recovery plans.

Disaster recovery plans cover most cases and must be practiced. Too often, the plans have not been practiced and are found to not work only when trying to recover from another disaster.

The history of the Roman Empire has disaster after disaster hitting Rome. None of the individual disasters brought down the empire. It was more the cumulative effect of multiple, unexpected disasters close together.

Risky World

The new way computer worms are getting around is through the new HTML5 built into the newest browsers. While it was designed to add video and other interactive aspects to HTML, it also allows worm writers a lot more capability to take over your social media contact list. Some browsers allow you to turn that off or have plug in modules that will.

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