HIGH FREQUENCY TRADING

"We should not set a speed limit to slow down everyone to the pace set by those unwilling or unable to compete."

Arthur Levitt, former SEC chairman

In 1998, the SEC authorized ECNs to compete with marketplaces like the New York Stock Exchange. The intent was to open markets for electronic trading. As new marketplaces have emerged, trading firms started to develop powerful algorithms to execute millions of orders a second and scan dozens of public and private marketplaces simultaneously.

These firms are now known as high frequency trading firms or HFT. HFTs exploit inefficiencies in the market structure through powerful computers and ultra fast connectivity to market centers. By some estimates, high-frequency trading firms represent over 70% of all equity trading volume in the US equity market.

High-frequency trading is characterized by a high turnover of capital. The positions have very short holding times in computer-driven responses to market situations. Typically HFT executes numbers of trades each day for small returns per trade.

HFT STRATEGIES

HFT refers to fully automated trading strategies that seek to benefit from market liquidity imbalances or other short-term pricing inefficiencies. These opportunities could last from milliseconds to minutes but usually close out by the end of the day. Some of these strategies involve market making, liquidity detection, cross-asset arbitrage, short-term statistical arbitrage and volatility arbitrage.

HOW HFT TRADERS MAKE MONEY

HFT strategies profit from liquidity rebates paid by the markets, and smart intra-day timing of their trades. Many rely on very short-term signals to create profitable trading opportunities, and try to get every timing advantage possible from the markets.

Some of the strategies are designed to take advantage over other market participants while maximizing the rebates offered by market centers for liquidity providers. Electronic exchanges pay traders to post bids and offers and charge people to remove liquidity. The rebate structure, however help investors with tighter spreads.

LOW LATENCY IS THE KEY

High-frequency trading strategies require ultra-low latency. To execute large number of trades, HFT must have real-time, collocated servers, high-frequency trading platforms and low latency data mining and analyzing capabilities for order routing and execution in sub-millisecond times.

About OMEX

OMEX Trading Technologies, LLC. designs and develops multi-asset trading systems for equities, options and futures trading. OMEX is a neutral,real-time platform that provides direct access to major global exchanges, dark pools, crossing networks, algo providers and leading market makers through a single trading interface. OMEX can be white labeled and branded to your firm's own trademark and look-and-feel.

For more information, please call **646-412-6002** or send us an email **: sales@omexsystems.com**
WWW.OMEXSYSTEMS.COM

OMEX

Order Management and Execution System

LOW LATENCY…FOR THE FAST MARKETS

"A good software design is more important than Colocation and Hardware acceleration"

IS HFT GOOD FOR THE MARKETS?

HTF has helped the markets in lowering the trading costs for all market participants by creating tighter spreads and liquidity. HFT traders perform the same function as the market makers and specialist of yesterday. In most cases they do this better, faster and cheaper than the market makers and specialists did. HFT firms play the role of liquidity providers, very much like the traditional market makers and specialists of the past without conflict of interest and information advantage.

HFT allows pension funds and mutual funds to trade large volumes quickly and anonymously, which benefits individuals who invest in them.

HFT firms are no different than other market participants. Investors benefit from tight spreads. The HFT firms should be viewed as part of an ongoing market evolution in providing liquidity into global financial markets.

Issues and Controversy

1. Some of the HFT strategies have become controversial because they are replacing floor traders and raising concerns that they may be hurting small investors.
2. Naked access or sponsored access setup allows HFT shops to trade directly on exchanges using powerful computers without the exchanges or regulators knowing who is making the trades. Some of the exchange registered brokerage firms allows HFTs or other traders such as hedge funds to use their MPIDs to trade directly on exchange computers.
3. Flash Orders 'only' benefit high frequency traders. Flash Orders are displayed for only a fraction of a second on certain exchanges, and thus are invisible to market participants. Flash order involves some traders getting a sneak peek at market orders before other investors can. HFT potentially can 'front run' orders for rebates and or out-run other slower participants.
4. And HFT has a very risky profile and could potentially destabilize the markets.

SEC proposes ban on naked access and flash orders

The SEC has proposed a rule effectively banning naked access and requiring additional risk, compliance and regulatory measures for broker-dealers providing market access. The SEC says naked access poses threats to stability, whereas "flash orders" raise concerns of fairness. The SEC has recently sought to ban flash orders.

The new rule would require broker-dealers with market access or that provide market access to others to have effective pre-trade risk management controls and supervisory procedures in place. With all trades going through these internal checks, naked or unfiltered access would effectively be prohibited.

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