High-Frequency and Algorithmic Trading

SPEAKER 1: The problem with high-frequency trading is this. First of all, it's a myth that it hurts the common trader. Somebody that's on E-Trade and wants to buy IBM or some other trade isn't buying it for the nanosecond. They're not worried about that microsecond that they might have gotten and one-hundredth of a penny difference.

If you're an average trader, and you're worried about one-hundredth of a penny, you shouldn't be trading because you can't compete with the big boys. It's just not going to happen. So most people-- public-- they trade. They buy something. They hold.

And they're looking for a few points or a long-term investment. So the high-frequency traders really, I agree-- that don't affect them. Where the high-frequency traders affect everybody, and this is where you have what they call the flash crash. And I didn't really look at it as a flash crash.

I looked at it as that it was a vacuum, and some people say it's the same thing. Well, it's really not. When we were in the pit and news would come out, and all of a sudden want to be like 60 bid at 60, at 40, at 20, at even-- there'll be some person like me saying, OK, I'm 95 bid, and they go sold. There'll be another person that'll go 90. Then it will be sold.

And if somebody would come out 85 bid, it will be sold. So there will be natural stops in the market. Natural volume because with 200 people in the pit, you have 200 different opinions. And everybody either had an opinion-- either it was too sold or too bought.

And the market would have ebb and flow going back and forth. Put in high-frequency trading. They tend to run on the same algorithm program. And when news comes out, they just pull.

SPEAKER 2: Pull out, panic the market drops. Yeah, and that's a real risk.

SPEAKER 1: They can pull out orders in nanoseconds. I can't tell you how many times that news came out, and a broker with 60 bid for 100. And before his clerk could grab him on his neck, I could go sold. OK, you can't do that now with the speed.

And what happens now is that it would be the equivalent of all the locals in the pit, the minute news came out that they would say, we're going to lunch. Have a nice time and see you later. And then the brokers would look.

And I've seen a broker's face when there's no bid when he has to sell something or no offer when he has to buy something. And that's why these vacuums now are just extraordinary. And that is the problem with where the high-frequency trader comes in. No, for 99% of the time, it's actually pretty good that they're there because they're arguing.

They are going back and forth with bids and offers, and I can get into any trade now. You can get into any trader now. Getting out's the problem.