

## Luddites unite

June 25<sup>th</sup> 2010

I'm almost too tired to blog. Now you may ask "What on earth could leave Natan too tired to have an opinion?" Well, I have just finished reading a **sixteen page** interview with the principals at Themis Trading.

One again these self-proclaimed defenders of "fair markets" make dozens of claims about how exchanges, brokers and high-frequency traders are conniving to screw both retail and institutional investors. Here are some of my favorite excerpts:

- *"But, let me be clear. We have no inside knowledge of these [HFT] firms. This is just what we hear in the market."*  
Dare I say that this could be a weakness in their position?
- *"We have May 6 now to prove that HFT doesn't increase market liquidity."*  
Strikes me that it also proved that the market isn't particularly liquid when electronic market makers are forced out by stale data and unresponsive exchanges.
- *"They provide it [liquidity] when they want to, not when the market needs them to. And only if their profit is virtually guaranteed... They are also liquidity demanders. Thesame guys who provide liquidity when they want to also demand liquidity when they need to. On May 6, they demanded liquidity."*  
Firstly, I imagine there are some HFT folks who will be delighted to know that their profits are virtually guaranteed. Secondly, what point are they making – that HFT firms trade for profit?
- *"The basic problem, in our view, is the for profit exchange model, which is filled with inherent conflicts of interest... Traditionally, the exchange business wasn't really very competitive, almost utility-like"*  
Hang on, now I'm the one being blamed? They didn't like exchanges when they were uncompetitive and slow, and they don't like them competitive and fast. I know correlation does not prove causation, but I think there might be an argument that a profit motive and competition amongst exchanges has spurred innovation, efficiencies and lower costs. I think their point is that because HFTs trade the most volume, exchanges are more likely to cater to their needs than to those of institutional brokers (or end investors).
- *"Well, because we are not on the inside of these robots' algorithms and their trading strategies to see exactly what's going on, nor are we involved in the meetings in which we believe the exchanges are complicit in so much of what's going on, it's hard for us to come back with specifics when defenders of HFT say, "Oh, you don't have the data to back it up.""*  
So they've insulted HFTs, accused the exchanges of being complicit, what next – suggest that every other broker on the street is also involved in the great conspiracy?

- “Most institutional algos use a smart router to route orders in small pieces throughout the day. The pecking order of these routers differs depending on which broker sponsors the algo. But a common goal is to always route to the least expensive destination first. Most of the time this means routing to a dark pool before routing to a displayed liquidity venue. Aha, no surprise there then. Well, European MTF dark pools are more expensive than lit pools, so the argument that brokers use them to reduce costs doesn’t stack up. And in such a competitive environment, nor does the suggestion that the majority brokers act against their clients’ best interest – if that were true, Themis would be a large brokerage house rather than just “two or three guys”.
- On the OrderID and Side-of-aggressor data from dark pool data fees they say *“By the way, they did get rid of them awfully quick overseas after we called attention to them. They were able, technologically, to do it in a heartbeat over there when some institutions started to boycott their European dark pools. Though, frankly, we’re a little skeptical that they took out everything we’d find objectionable if we had the regulatory power to comb through their records.”*  
I’m sceptical they care about the truth – but it’s important to note that they don’t need any “regulatory power” – our *public* feeds are exactly that – *public*. So come and take a look.
- *“Almost everyone else seems to have a vested interest”*  
Really, I’m lost for words.

I guess an informed debate is too much to expect?

We invite feedback from brokers, competitors, regulators and institutional investors on our approach and our views.

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