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Brian R. Brown

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 Wiley Trading


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How Black-Box Trading
influences stock markets from
Wall Street to Shanghai



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Brian R. Brown : Chasing the Same Signals: How Black-Box Trading Influences Stock Markets from Wall Street to Shanghai (Wiley Trading) before purchasing it in order to gage whether or not it would be worth my time, and all praised Chasing the Same Signals: How Black-Box Trading Influences Stock Markets from Wall Street to Shanghai (Wiley Trading):

3 of 5 people found the following review helpful. A good place to beginBy Dr. Lee D. CarlsonIt is refreshing to find a

book written for a general audience that has its goal the explanation of quantitative trading without engaging in the hype and vituperation that too often plagues current books on the subject. Although this book takes a purely qualitative approach and omits the complicated mathematics that makes its appearance in financial engineering, it summarizes well the main issues behind what has been termed 'black-box trading' in some circles. The author gives a detailed explanation of the events of August 2007, which surprised some analysts but was expected by others, and which the author describes as the "world's first stock market panic by machines". Some bloggers and financial reporters covering currency trading and the Greek debt crisis amusingly refer to similar out-of-control machine trading that is happening in the currency markets at the present time as "algotasms." Again, the author thankfully avoids discussing the personalities and intra-office gossip that trivialize or exaggerate the role of algorithmic and machine trading. He also addresses the potential of regulatory frameworks to obliterate the profit margins of algorithmic trading. In the past several weeks, politicians and many in the press have been engaging in a lot of chin-wagging about the need for regulations on derivative transactions. Blaming derivatives for the current "financial crisis", these individuals never give any in-depth evidence for their claims. The role of "friction" in market associations, and its potential for nullifying the efficient market hypothesis is also discussed, along with the use of network optimization ala capacity planning and network latency in black-box trading strategies. The author also includes a brief discussion on the institutional and managerial pressures put upon financial modelers to output results that make the situation look a bit more rosy than it is. Modelers now need more than just a mathematical background to function effectively because of this: they also need very strong characters that are able to resist these pressures. In this book one can also find an interesting proposition to the effect that market volatility is not due solely to investment uncertainty but also to a degree from the black-box strategies that are deployed in quantitative trading. The author points to the need for a lot more research to settle how large this degree is. Also, and most importantly, he reminds the reader that all investors and their investment strategies are now and in the future entangled and co-dependent with each other. But all of us, investor and non-investor alike, should not worry too much about whether we will have economic "stability" or "equilibrium" (as the author is). It looks like extreme volatility is here to stay, despite the efforts of regulators and posturing politicians. Regulatory arbitrage, coupled with even more sophisticated algorithms and reasoning patterns deployed by intelligent machines will make a rough and rocky but highly interesting road ahead. 0 of 0 people found the following review helpful. Three Stars By Trading Truth Seeker Big Thanks! 11 of 14 people found the following review helpful. Very informative By Narada But loses a star for atrocious copy editing and poor writing -- if ever someone needed a ghostwriter, the author is that man. The content is sometimes repetitive and somewhat randomly laid out, so this book would definitely get one star on literary merits. BUT, the book actually tells you what it is that black box traders do, and answers many questions an intelligent layman might have (such as: if it is called "statistical arbitrage", in what way does it make the markets more efficient?) One thing about the content is that (presumably because the author was at Morgan Stanley) there is a bit of a high frequency skew -- since investment banks have lower execution costs [they don't need to pay commissions], they tend to do higher frequency trading than non-broker traders. The book is INFINITELY superior to Inside the Black Box: The Simple Truth About Quantitative Trading (Wiley Finance), and complementary to The Quants: How a New Breed of Math Whizzes Conquered Wall Street and Nearly Destroyed It. "Quants" (aside from being well-written and a bit sensationalized, neither of which the current book can be accused of) covers a different segment of the quantitative "space", which is undersandable, since most members of the public would probably glaze over pretty quickly when reading about serial correlation.

Conventional wisdom suggests that markets are efficient, random walks and that stock prices rise and fall with the fundamentals of the company. How then have black-box traders prospered and how do they exploit market inefficiencies? Are their strategies on their last legs or will they adapt to the new landscape amidst the global financial crisis? Chasing the Same Signals is a unique chronicle of the black-box industry's rise to prominence and their influence on the market place. This is not a story about what signals they chase, but rather a story on how they chase and compete for the same signals nbsp;

If you want to understand how computerized trading is impacting our markets, this book is for you. -- Charles D. Ellis, Author, The Partnership: The Making of Goldman Sachs The interplay between algorithmically driven and traditional trading strategies affects the returns of all investors. Brian Brown's new book provides a very clear overview of how these new strategies work and more importantly, how they influence liquidity, volatility, and prices in the global equity market. -- Andrew J. Morton, Co-creator of the Heath-Jarrow-Morton (HJM) Framework Technology advances over the past decade have dramatically changed the dynamic world of stock market trading. Most analysts have failed to account for this "brave new world" in their "Monday morning quarterback" analysis of the recent worldwide financial systems collapse. Brian Brown has written the first book that clearly and colorfully describes the new technologically-driven way of doing business on the Street, and he does this with great precision and street knowledge. nbsp; This new world played a central role in the Wall Street collapse, and, paradoxically, will help drive the next ascent. -- Thomas F. Coleman, Dean and Professor, Faculty of Mathematics Director, Waterloo Research

Institute in Insurance, Securities, and Quantitative Finance, University of Waterloo Much has been made of the activities of "High Frequency Traders" during the Global Financial Crisis. In many cases they have been vilified, but often out of ignorance about the vital function that they perform in today's hyper-speed financial markets. Brian sets out to demystify High Frequency Trading and does so in an eminently readable fashion. This book will appeal to anyone, market professional or not, who wants to understand this often secretive group. -- E. John Fildes, Chief Operating Officer, Asia, Instinet Pacific

From the Inside Flap A year before the subprime financial crisis materialized, there was a subtle warning that global equity markets were in distress. During August 2007, there was a 30 percent gap between the top stocks and the worst stocks; but the index itself was unchanged. Weeks later, prominent hedge funds came forward with similar stories about suffering massive losses in a single day. It was the world's first stock market panic-by machines that were Chasing the Same Signals. Over the past decade, "black-box" trading has come of age. These firms use mathematical formulas and computer wizardry to buy and sell stocks. The industry attracts the likes of mathematicians and physicists and their investment philosophy is a marriage of science and economics. Quantitative trading has a long history, but the industry was transformed when technology allowed investors to trade stocks electronically. The 2007 crisis didn't mark the demise of the black-box firms; rather the opposite. They were the first to feel the impact of the financial crisis, but were the best prepared during the aftermath. And now they've grown: more than 50 percent of today's investors are computers. The rise of black-box trading has led to a number of important questions: Are they creating volatility or stabilizing the market? Why are large price swings and reversals more prevalent than ever? What happened to the buy-and-hold investor? And what does their trading mean to mom-and-pop investors who interpret the health of our economy through CNN each morning? In *Chasing the Same Signals*, author Brian Brown offers fascinating insights into the world of cyber-trading and speculates on a future where Wall Street is dominated by computers.

About the Author Brian R. Brown is a Wall Street veteran in quantitative trading. He spent eight years as an executive at Morgan Stanley in Hong Kong, serving as director of pan-Asia systematic trading, where he was influential to Asian reforms that increased market efficiency and attracted global investors. Brian formerly researched and managed statistical arbitrage strategies for Trout Trading Management, one of the legendary Market Wizards. He has advised the industry's largest hedge funds on how to adapt their models in emerging markets. Brian was born in Canada and graduated from the University of Waterloo. He currently lives in Hong Kong with his wife, two children and the family dog, Hotrod.