MARKET DISTORTIONS AND PROFIT DRIVEN FINANCIAL INSTABILITY: 84% of All Stock Trades are by High-Frequency Computer Algorithms

By Washington's Blog

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Given The Dominance of The Machines, Do Flesh-and-Blood Traders Have a Chance?

As of 2010, ***50-70%*** of all stock trades were done by high frequency trading computer algorithms.

And many other asset classes are dominated by high frequency trading as well.

High-frequency trading distorts the markets. And see this, this and this. And it lets the big banks peek at what the real traders are buying and selling, and then trade on the insider information. See this, this, this, and this.

Morgan Stanley has just shown (via the Financial Times) that the percentage of high frequency trading in the stock market has skyrocketed to 84%:

> Trading by "real" investors is taking up the smallest share of US stock market volumes [since Morgan Stanley started keeping track 10 years ago.]
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> The findings highlight how US trading activity is increasingly being fuelled by fast turnover of shares by independent firms and the market-making desks of brokerages, many using high-frequency trading engines. [actually all of the market-making desks are using it.]
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> The proportion of US trading activity represented by buy and sell orders from mutual funds, hedge funds, pensions and brokerages, referred to as "real money" or institutional investors, accounted for just **16 per cent** of total market volume in the form of buying, and **13 per cent** via selling in the final quarter of last year, according to analysis by Morgan Stanley's Quantitative and Derivative Strategies group.

It's not just the U.S. High frequency trading dominates in the U.K. as well.

Given the dominance of the machines, do flesh-and-blood traders have a chance?

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