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Thomson Reuters, the information provider, will on Friday launch a system designed to predict market volatility using real-time news feeds, as traders focus on future price movements in preference to historical data as the main basis for their automated trading systems.

It comes after a period of 18 months during which sudden spikes in volatility have become the norm and the quantitative and automated models used by many traders, the bulk of which rely largely on historical data, have proved unreliable at dealing with it.

The Thomson Reuters system uses news alerts that feed directly into an algorithm, or computer model, to try to predict future market volatility which can in turn be used to better inform a trading decision or risk management process. A series of real-time indices have been developed to measure when abnormally large amounts of news happen in various categories. When the level of news reaches a certain threshold, a signal alerts customers to potential market movements.

The new system differs with past efforts that have tended to focus on historical data as the main inputs to risk management and trading models rather than real-time news.

Sang Lee, managing partner at the Aite Group, the US consultant, said: "When you look at algorithmic trading overall, most participants are increasingly hungry for data. But it used to be the case that most of the data used by algorithms was traditional tick data and historical data."

Efforts to improve algorithmic trading come as its use continues to spread. Recent estimates suggest that almost 50 per cent of all equity trading is now done algorithmically.

For all the benefits, the potential pitfalls of this greater reliance on algorithmic trading are clear. They were demonstrated on September 8 last year when a story regarding United Airlines' bankruptcy proceedings from 2002 somehow showed up on the website of the South Florida Sun-Sentinel. Someone saw the article, posted it on Bloomberg and then news-driven algorithms took over, driving the price of the stock down to \$3 a share from its opening price on the day of \$12.50.

If the bulk of trading was still done by phone rather than at the touch of a button, the damage inflicted on the stock would have been far less serious.

A fresh sign of life in the US capital raising market came on Thursday as SandRidge Energy became the first company in the US to issue a convertible offering since September 9 last year. The SandRidge offering, made via Deutsche Bank, was for \$225m.

There were 89 US convertibles last year raising \$57.6bn – a 53 per cent drop in activity and a 39 per cent fall in volume from the previous year when 190 deals raised \$94.2bn, according to Dealogic, the data provider.

The market for initial public offerings has also been largely dormant in recent months as the global financial crisis has forced many companies to cancel or postpone their plans indefinitely. [Copyright The Financial Times Limited 2009](#)