



[Cleared OTC from CME](#) OTC Clearing in Real-Time with CME IRS, CDS, and FX. www.CMEGroup.com/OTC_Trading

[12% Yield Stocks to Buy](#) These stocks yield 12%, yet most US investors don't know they exist. www.GlobalDividends.com

[The Greatest Penny Stocks](#) Get free daily penny stock alerts. Join now. New pick out soon. www.PennyPicks.net

AdChoices

[Home](#) [Headlines](#) ▾ [Authors](#) [Jobs](#)

• Subscribe:



- [Economy](#)
- [Wall Street](#)
- [Technology](#)
- [World](#)
- [Video](#)
- [Market Today](#)



-

Navigate: [Home](#) [Business](#), [Latest](#), [Wall Street](#) Al Gore, Sociologists, Address High-Frequency Trades

Al Gore, Sociologists, Address High-Frequency Trades

By [Eric Falkenstein](#) Feb 11, 2013, 10:30 AM [Author's Website](#)

Al Gore's latest tome *The Future* [warns](#) us that:

There are already several reckless practices that should be immediately stopped: the sale of deadly weapons to groups throughout the world; the use of antibiotics as a livestock growth stimulant; drilling for oil in the vulnerable Arctic Ocean; **the dominance of stock market trading by supercomputers with algorithms optimized for high-speed, high-frequency trades that create volatility and risk of market disruptions..**

As to how the stock market volume hurts the economy, he isn't clear, but his intuition is that 'trading' doesn't add value, and gives the example of the project to [trim](#) 3 milliseconds off the internet trip from New York to Chicago, which he

says could have been spent on something productive. Just stop trading, and boom, one could transfer say 50% of the 8% of GDP we currently spend on finance to our inner cities.

Yet, a lot of innovation is an off-shoot of something pretty banal, like porn and VCRs, and I would hate to have all projects need a sign off from some centralized Star Chamber because that would lead to all sorts of corruption. One could say that Al adds dubious value on his various boards and venture investments, as his main value consists of knowing the right regulators and big government contractors, crony capitalism, which is much more destructive than those dreaded limit orders that are often cancelled. The thought that this guy is a Nobel Peace Prize winner, Oscar Nominee and centimillionaire should remind everyone that Life Isn't Fair because he hasn't had an original or courageous thought in his life, as his book presents a caricature of free markets that is obviously indefensible. Only the simplest minds can think that in any great controversy such as that between those believing in more government the other in less, one side is mere folly or cupidity.

It's strange that a lot of people with no real interest or knowledge have very strong opinions on how much assets should trade, even though it doesn't affect them. They hate the idea that someone's getting rich doing something they don't think adds value, though it occurs in a competitive environment. If the average daily volume for a stock was 100% of the shares outstanding, should it optimally be 200%? 50%? I don't think anyone knows, anymore than one knows whether interest rates should be 2% or 5%. The great thing about markets is that while they are often wrong, they correct themselves a lot faster than collectives do, and further, they decentralize decision making. Asset markets don't just produce prices, but they allocate investments to their highest perceived value; when wrong, the owners pay the price, so incentives are aligned.

If you are a dictator the last thing you want to see is your work being second-guessed in real time, you would rather see it evaluated at completion, and never compared to anything. Further, like the Post Office or Medicare, you would like to have no shareholders so you could say you are doing a great job regardless, just point out the services provided to customers without a choice. A stock market on such entities would highlight how inefficient such programs are being run relative to those who would like to run them, and they would have motive, means, and opportunity to follow through.

Unfortunately, such idle rambling is not merely a spectator sport of closet socialists, but PhD students. There's a Howard Zinn-type exegesis of trading in [Destructive Destruction? An Ecological Study of High Frequency Trading](#) by some students of *Heterodox Economics and Sociology of Financial Markets*:

According to heterodox economics the development of thermodynamics brought an end to the dominance of classical physics in economic theory, in particular the dogma of efficient markets hypothesis, and reversal to equilibrium.

Given that the theory of efficient markets wasn't really developed until the 1960's, and Hayek's [The Use of Knowledge in Society](#) was written in 1945 I'd say the relation between physics, especially thermodynamics, and this economic theory was pretty independent, though I would agree that every broad economic theory has a vague relation to some physics (optimizing individuals are kind of like the principle of least action).

Anyway, these poor saps figure that it's all based on the 'fourth law of thermodynamics.'

The true novelty of Georgescu-Roegen's formulation lies in his proposal for a fourth law of thermodynamics, where it is not only energy that is subject to decreasing returns, but also matter; friction robs us of available matter

Trading is like friction that simply robs the economy of value.

In as much as it diminishes the risk of trading through higher matching speeds, HFT allows buyers and

sellers to reduce their transaction costs considerably.

Like most discussions of risk and return, they suggest there's a risk-return nexus and these firms are merely accessing it, but that metaphor is as misguided as their entropy-flow thesis (not discussed here, but its a vague metaphor these authors think is the key to everything). How does HFT reduce risks, and for whom? I actually think of HFT as simply trying to efficiently parcel orders out of a big trade, and reacting quickly to movements in related securities when providing liquidity. This reduces the risk to retail traders because it gives them greater liquidity because placing a bunch of limit orders at the best bid/ask is like being an electronic market maker. This allows regular Joe's to trade without moving prices so much, and at more efficient prices. It does not reduce risk for the high frequency trader himself, as this activity generally takes risks because you can't make profits without taking risks in this highly competitive domain. Further, taking intraday positions does not generate a positive return per se, so there's no risk-return relationship merely for taking the position.

As someone against the status quo, I have to say my fellow anti-current-paradigm intellectuals are mostly moon-bat crazy like those above. Clowns to the left of me, but I find myself more broadly sympathetic with the 90% of the jokers to the right such as Cam Harvey, John Campbell, or John Cochrane. Not that I think they are correct, just that they are much more fruitful to read than those who think there's a fourth law of thermodynamics that's essential to understanding the economy.

[Buy Stocks for \\$4](#)

www.sharebuilder.com

No Account or Investment Minimums. No Inactivity Fees - \$100 Bonus.



[10 Stocks to Hold Forever](#)

www.StreetAuthority.com

Buy them, forget about them, and never sell them.



[CFP® Financial Planner](#)

ncsu.FinancialPlannerProgram.com

Certified Financial Planner Program \$1710 Off Free Course Sign-up Today



AdChoices

Share:

Like

0

Tweet

4

Share

0

0

1

- [High Frequency PT: Is the Field Leveled?](#)
- [Nasdaq Cancels Google Erroneous Trades](#)
- [Banks May Face Billions In Losses On European Interest Rate Trades](#)
- [20% High-Yield Defaults? Don't Underestimate the Power of the Autos!](#)
- [Greenback Hits 2 Year High vs Euro; Odds Rise for Joint Rate Cuts](#)

Leave a Comment

Name (required)

E-Mail (required)

Website

Notify me of followup comments via e-mail

Author Spotlight



[**Bruce Krasting**](#) **1**

Social Security Spending at the Rate of Five Aircraft Carriers A Month!... [Read »](#)



[**Larry M. Elkin**](#) **22**

Obamacare Begins To Derail... [Read »](#)



[**Robert Reich**](#) **3**

The Widening Inequality... [Read »](#)



[**Mark Cuban**](#)

Will Your College Go Out of Business Before You Graduate?... [Read »](#)

Market Data

[INDU](#) 0.00

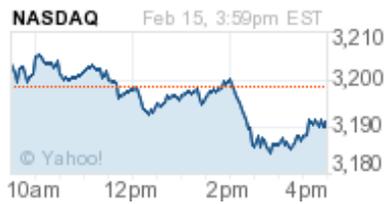


[N/A](#)

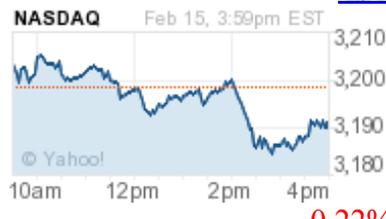


[N/A](#)

[NASDAQ](#) 3192.03

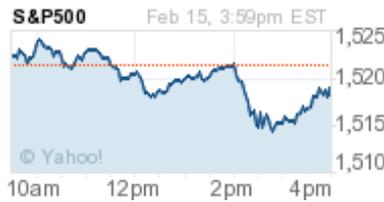


[-6.63](#)

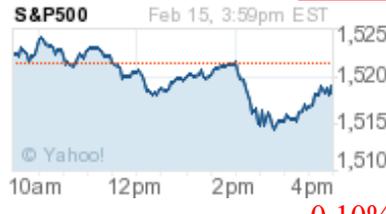


[-0.22%](#)

[S&P 500](#) 1519.79



[-1.59](#)

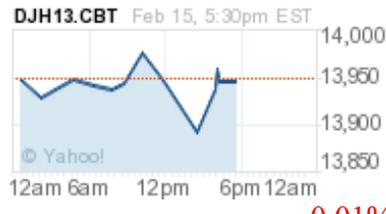


[-0.10%](#)

[DJIA Fut](#) 13948.00



[-2.00](#)



[-0.01%](#)

[Nasdaq Fut](#) 2761.50

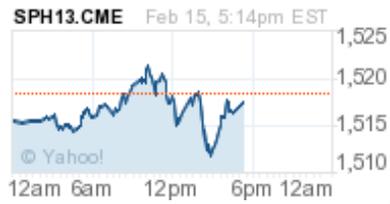


[-5.75](#)



[-0.21%](#)

[S&P Fut](#) 1519.00



+0.50



+0.03%

[Oil Fut](#) 95.40



-1.91

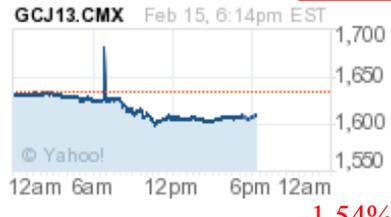


-1.96%

[Gold Fut](#) 1610.30



-25.20



-1.54%

[Nikkei](#) 11173.83

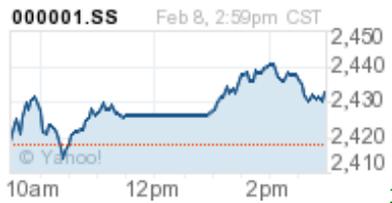


-133.45



-1.18%

[Shanghai](#) 2432.402



+13.872



+0.57%

[UK](#) 6328.26

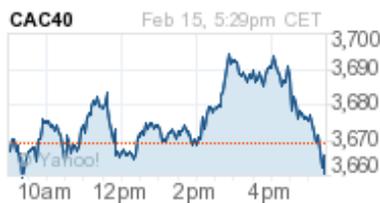


+0.90

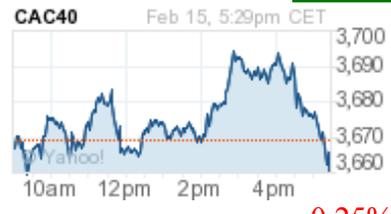


+0.01%

[France](#) 3660.37



-9.23



-0.25%

[Germany](#) 7593.51



Latest Posts

- [Stocks to Watch: NVDA, OVTL, HLF](#)
- [Four Market Indicators Suggest That US Recession Risk Is Low](#)
- [Staples Lands Deal to Carry Apple \(AAPL\) Products in the U.S.](#)
- [The NRO is Against a Balance Budget Agreement. Can You Guess Why?](#)
- [The Balanced Budget Amendment's \\$300 Billion Error](#)
- [Senators Seek to Lift Restrictions on Industrial Hemp](#)
- [Meredith, Will You Be My Valentine?](#)
- [Sorry! The Lifestyle You Ordered is Currently Out of Stock](#)
- ['Beggars Thy Neighbor' Leads to Currency Wars](#)
- [Why High Frequency Trading is Not a Problem](#)

Our Partners:



Copyright © 2013 [Wall Street Pit](#) | [Contact Us](#) | [Advertise](#) | [Contribute](#) | [Terms of Use](#) | [Privacy Policy](#)

