Algorithmic Trading in india

by Raj Kumar

Article published on June 29th 2012 | Business

Algorithmic trading involves the use of electronic platforms in order to enter trading orders with an algorithm that decides on various aspects of the order like timing, price, and quantity of the order. In many cases it also initiates the order without human intervention.

Pension funds, mutual funds, and other buy side (investor driven) institutional traders make extensive use of algorithmic trading to divide large trades into several smaller trades with an aim to manage market impact, and risk. Sell side traders, like market makers and some hedge funds, brings liquidity to the market, resulting in the automatic generation and execution of orders.

"High-frequency trading" (HFT) is a special class of algorithmic trading, where computers make detailed decisions with an aim to initiate orders on the basis of information received electronically, much faster than human traders can process the information they observe. As a result, a dramatic change has occurred in the market microstructure, especially in the context of how liquidity is provided.

Any investment strategy, like market making, inter-market spreading, arbitrage, or pure speculation (including trend following) may use algorithmic trading.

Some of the investment strategies that are followed in todayâ€™s scenario are:

1. Trend following

This investment strategy tries to take advantage of long-term, medium-term, and short-term moves occuring in various markets. Traders using this approach apply current market price calculation, moving averages and channel breakouts for the purpose of determining the general direction of the market and for generating trade signals.

2. Pair trading

This is a market neutral trading strategy that enables traders to profit from almost any market condition, whether it is uptrend, downtrend, or sidewise movement.

3. Delta neutral strategies

This describes a related financial securities portfolio where the value of the portfolio remains constant owing to small changes in the value of the underlying security.

4. Arbitrage

Arbitrage is defined in different ways. An economist and a finance person would define it as the practice of availing the benefit of a price difference between two or more markets. This helps to strike a combination of matching deals that can capitalize upon the imbalance. And the resulting profit is the difference between the market prices. An academician would define arbitrage as a transaction that at any probabilistic or temporal state does not involve any negative cash flow but involves a positive cash flow in at least one state. Simply said, it is the possibility of a risk-free profit at zero cost.

5. Mean reversion

This is a mathematical methodology that is used for stock investing. However, it can be applied to other processes as well. The idea behind mean reversion is that both the high and low prices of a stock are temporary and that the price of a stock price tends to have an average price over time.

6. Scalping

This is another method of arbitraging small price gaps that have been created by the bid-ask spread. Scalpers make an attempt to act like traditional market makers or specialists. Making the spread implies buying at the bid price and selling at the ask price, resulting in a gain on the bid/ask difference.

7. Transaction cost reduction

Majority of strategies that are referred to as algorithmic trading (as well as algorithmic liquidity seeking) fall into this category. Here large orders are split up into several smaller orders, that are entered into the market over time. This strategy is called "iceberging".

Article Source:
http://www.articleside.com/business-articles/algorithmic-trading-in-india.htm - Article Side

Raj Kumar - About Author:
QuantInsti is launched with an aim to introduce its course participants with a world class exposure in the domain of Algorithmic Trading. Also Offers a Algorithmic Algorithmic trading India, Algorithmic Trading Software in India.

Article Keywords:
quantitative trading, high frequency trading in india, algorithmic trading india, quantitative trading in india, algorithmic trading in india.

You can find more free articles on Article Side. Sign up today and share your knowledge to the community! It is completely FREE!