Algorithmic Trading

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Algorithmic Trading Latest News

The Securities and Exchange Board of India (SEBI) recently announced a settlement scheme for stockbrokers currently under regulatory scrutiny for collaborating with unregulated algorithmic (algo) trading platforms.

About Algorithmic Trading

- Algorithmic trading (also called **automated trading, black-box trading**, or **algo-trading**) **uses a computer program** that **follows a defined set of instructions** (an algorithm) **to place a trade.**
- It combines computer programming and financial markets to **execute trades at precise moments.**
- The trade, in theory, **can generate profits at a speed and frequency** that is impossible for a human trader.
- The defined sets of **instructions are based on timing, price, quantity,** or any **mathematical model.**
- Algo trading is already **prevalent in India** among both institutional and retail investors.
- Apart from profit opportunities for the trader, algo-trading **renders markets more liquid** and **trading more systematic** by **ruling out the impact of human emotions** on trading activities.

- **Black Swan Events:**
  - Algorithmic trading **relies on historical data** and **mathematical models to predict** future **market movements.**
  - However, **unforeseen market disruptions,** known as **black swan events,** can occur, which **can result inlosses for algorithmic traders.**

Algorithmic Trading FAQs

Q1. What is algorithmic trading primarily based on?

Ans. A set of defined instructions or algorithms.

Q2. What is another term commonly used for algorithmic trading?

Ans. Black-box trading

Q3. In the context of algorithmic trading, what are “black swan events”?

Ans. Sudden and unpredictable market disruptions.

Source: HB
