How Technology is Changing the Way You Trade

You will be amazed at what these industry players have to say about trading technology


Eva Diaz | Blogs (Retail FX) | Tuesday, 20/09/2016|14:34 GMT
This article first appeared on FinanceMagnates.com
You can view the original article here:
http://www.financemagnates.com/forex/bloggers/technology-changing-way-trade/#

This article was written by Eva Diaz, co-founder and Managing Director of Profile Booster.

There's no question about the impact of technology in our everyday lives.

From the moment we wake up (to check how the markets performed overnight) until the time we go back to bed (before doing another check of how the market is set to open on the other side of the globe), technology now plays a critical role in everything we do and the way we do things.

Join the industry leaders at the Finance Magnates London Summit, 14-15 November, 2016. Register here!

For the financial markets, the coming of advanced technology has been the key factor behind the transformation in the way things are done. Technology is also at the core of how companies operate and maintain their competitive edge in this cutthroat environment.

In this article we've interviewed a number of industry players – traders, dealers, ex-institutional traders, market analysts – to get their insights on how technology has affected or is affecting their trading in this digital age.

We covered a wide range of topics from trading platforms to trading tools and the psychological impact of technology on trading and traders. You will be amazed at what these industry players have to say about technology and its impact on trading and traders.

Ease of access

All the industry players and experts we talked to agreed that technology has made trading more accessible to more people. Whereas before trading was only available to institutional players, the coming of technology has opened up the floodgates for private and retail traders to participate in the industry.

Kara Ordway, a financial markets industry analyst with almost 10 years of dealing experience, said: “Technology has streamlined trading. It has opened doors to the masses and has given the necessary tools of the trade to professionals and non-professionals alike. Anyone, anywhere, with an internet connection can now get access to live streaming prices and manage their own portfolio.”

Stephen Innes, senior currency trader at CFD and FX broker OANDA Australia and Asia Pacific, expressed a similar view: “Although electronic FX trading has been in vogue for the past decade, it gained significant traction post the financial crisis of 2008 and it is definitely flourishing now,”

“The ease of access and increased transparency offered on electronic platforms now appeals to a broader customer base, including retail traders, who now view FX trading as an investment in the same breath as both bond and equity asset classes.”

He added that while forex trading and trading in general used to be the domain of institutional and corporate players, today even retail and private investors consider forex an essential component of their overall portfolio. And this is no doubt due to the ease of access and price transparency offered on the electronic platform.

Technology makes for competitive landscape

Michael McCarthy, chief market strategist at CMC Markets, pointed out the role of technology in making the financial markets and trading industry a much more competitive landscape.

According to McCarthy: “In a way, technology has forced brokers and platform providers to lift their game and enhance their offerings.”

"Nowadays, providers need to have the latest technology all the time. They need to add new and build more features to their platform to attract and retain clients. Take for example a charting app that used to be a 'good to have' feature in trading platforms. Today, a charting package is a must in any trading platform for traders to sign up," he said.

Emergence of smaller providers

McCarthy also added that the coming of white label providers, who are actually using someone else's platform, is another result of new technology making it possible for smaller operators and providers to set up shop and offer trading platform services.

Whereas before the barriers to entry for smaller providers was so high, the availability of technology that can easily be deployed and replicated has made it easier for smaller players to get into the industry.

Freedom and flexibility for traders

Vito Henjoto, Director at Zenifix and an avid chartist, went further, saying that technology has given traders more freedom in their lives.

"Traders are now able to monitor their trades from anywhere as long as there is an internet connection. This gives traders more freedom, mobility and flexibility. And of course, you cannot discount the vast amount of information available to traders nowadays all because of technology."

Henjoto added that when he started trading, market information and data were either too expensive to have or too slow for the media to report. But digital technology has made trading more of a level playing field as information and market data can now be instantly accessible and available.

For Henjoto the biggest game changer brought by technology is mobility.

"I'm not tied down to a trading platform that is desktop only. I can trade from my phone or tablets. We now have charting packages that are accessible through internet browsers. With this I can analyse the market while having coffee in the morning and ready to trade once I get to the office,' "This makes me a more efficient trader with information ready at any time without compromises," he said.

Faster and automated execution

Like other industries that benefit from the efficiency of automation, the financial markets and the trading industry in particular is seeing the massive impact of automation on various layers. From the back office operations to the dealing desk, automation has brought sweeping changes to what used to be a manually intensive transaction-based operation.

According to Ordway, faster and more automated execution has eliminated the need for dealer intervention. And this means faster execution of trades and very little or no chance of missing trades for traders.

On the other hand, the automation of the dealing function has reduced the need for big teams of dealers. Today, many trading platform providers have a fully automated dealing procedure which means that instead of having 10-20 dealers on the desk, they could operate with only 2-3 dealers to manage the trades.

From a trader's perspective, the automation of trading comes in the form of expert advisors (EAs), which are fast becoming the norm.

"Automated trading and the ability to walk away and let your strategies play out, has eliminated some portion of the emotional lead trading we may have seen previously," Ordway said.

Henjoto agreed that automated trading has completely changed the trading landscape. He said that the majority of traders use automated trading to a certain extent without realising it. This is because most trading platforms now offer various types of orders that can be pre-set and triggered automatically when conditions are met.

"Stop and limit orders are now mostly automated and don't require any trader intervention. Trading methodologies and rules are being converted into algorithms that are then let loose in the markets. These Algos make decision making much quicker and traders can act on them with precision and speed compared to manual trading," Henjoto said.

As an active trader himself, Henjoto said: "Personally I have delegated more than half of my trades to an Algorithm that is coded to match how I trade. So far so good, but I do monitor it most of the time and check for any trading inconsistencies at the end of the day."

Speed of execution

In this interconnected world of instant access (to almost everything), speed is a big factor. When a trading provider uses words like no time delays, no latency, millisecond executions and other descriptions of speed, you know that leading edge technology is at the core of their offering.

OANDA's Innes traced the forex markets' ongoing transition from a predominately voice–based marketplace to one in which application programming interfaces (APIs), single dealer platforms (SDPs) and multi-dealer platforms (MDPs) dominate the landscape.

Innes himself saw and experienced the changes in the FX trading industry. He started trading when most of the transactions were done over the phone. And then electronic trading came along.

He said: "The electronification of the markets has been nothing short of staggering. During the early '90s, there was $1.2 trillion OTC market in spot FX comprised mostly of voice-traded execution, and now there are more than $5.2 trillion traded with 50-60 percent executed electronically, according to the Bank for International Settlements (BIS)."

According to Innes the availability of SDPs and MDPs have not only given traders faster access to markets but also better access to pricing and spread offering.

IT manager is king

Sean Lee, director at FXWW – a private company that helps talented retail traders make the transition to professional trading – said: "Bigger and quicker servers and vastly improved APIs mean that every market participant is now almost instantaneously connected with each other.

Everybody would seem, or at least all the institutional players, have algorithms which help them to make sense of this electronic landscape and ultimately protect them or help them to profit from this new world order.

There is no place in this new environment for the big teams of interbank spot and prop traders which were common in the past. Nowadays the IT manager is King," Lee concluded.

Is it all positive for the trading industry?

Given all the benefits and advantages delivered by technology to the industry, are there any negatives or downsides to it at all? And given the reality that there's almost always at least two sides to a story, our market players agree that technology has also some downside for the trading industry.

For Kara Ordway, who has seen the industry's transition from manual dealing desks to automated dealing, the question is: "Where are we going now or where will all these lead to?"

High frequency trading and flash crashes

She said: "With trading speeds monitored down to the micro-second, traders are still on a race to the bottom when it comes to being the first mover on a price. High frequency trading is more popular than it has ever been. And it is that leverage of high frequency financial data and electronic execution that has made this possible.

But there is some evidence that high frequency trading creates volatility in markets that otherwise just would not exist. Without risk control factors in play, fat finger trades can cause chaos, triggering automated trading orders. This causes distortions in markets. You only have to look at the flash crash to see the extent of the damage this type of automated trading can create," she said.

Lack of human interaction

FXWW's Lee laments the growing lack of human interaction in the evolving trading environment.

He said: "Human interaction, which used to be the glue which held the market together, is now almost non-existent. All of this technology when combined with improved internet access, smarter phones, has also made the FX market available to a whole new breed of traders."

"From my perspective, I consider the fact that young talented traders can start a career in the retail space as being an absolute positive. But the downside of course is the number of unscrupulous operators that take advantage of people who should not be participating in the FX market."

Social trading could be good and bad (for traders)

From Henjoto's perspective, it seems ironic that the speed and ease of access (of trading) for traders could also deliver harm to the industry in a major way.

Henjoto sees social trading as both good and bad.

"It is good when social trading providers do their due diligence in filtering who can provide trade recommendations and ideas on their platforms. I have seen and read a few cases of so called Social trading "gurus" providing trade recommendations with either a paper trading account or downright doctoring of their statements to gain subscribers."

On the other hand, the negative side of social trading comes in the form of information overload for inexperienced traders.

"Information is a powerful tool for all traders or investors. But too much information that is often contradicting, does more harm than good. I think with the changes in technology, baby boomers are the ones being mostly effected negatively as most are slow to keep up with the technological changes. Millennials are now of trading age and they will continue to innovate and improve on the current technology," Henjoto said.

And while recognising that machines have the speed, precision and none of the emotional baggage a human trader has, Henjoto said one thing machines lack is the trader's instinct from experience in trading.

CMC's McCarthy believes social media will continue to play a big role in trading and among traders. He said that while social trading is still considered at its infancy, there are signs that traders are getting more into it and accepting it more and more.

As more advanced technologies and apps come into the fore and more tech-savvy traders join the markets, we could expect more changes in this ever evolving landscape. And as technology has changed the many aspects of our lives, it is bound to change other facets of the trading industry.