

New York University Tandon School of Engineering
Finance and Risk Engineering

Course Outline FRE 7251: Algorithmic Trading and High Frequency Finance

Professor Roy S. Freedman

When: (Check Albert).

Where: Brooklyn TBA (Check Albert)

Contact Professor Freedman

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Course Pre-requisites: Graduate status. FRE 6153 or permission of instructor.

Course Description

Algorithmic trading refers to the utilization of special computer programs in an order management system that restructure an order into a sequence of sub-orders based on the dimensions of submission time, price, size, and side. High frequency trading uses technology process a million orders and messages per second. This course surveys several strategies used by financial institutions and helps students understand their implementation in the context of order management systems and standard financial protocols (such as FIX). Student teams will prepare and present projects or case studies applying the concepts covered in class.

Course Objectives

1. Understand the differences and similarities between algorithmic and high frequency trading.
2. Discuss the regulatory framework for algorithmic and high frequency trading.
3. Survey several algorithmic strategies used by financial institutions
4. Understand the implementation of algorithmic and high frequency strategies in the context of order management systems and standard financial protocols.
5. Learn about the financial technology underlying algorithmic and high frequency trading.

Course Structure

Classes consist of lectures, discussion of financial technology news, readings, team presentations, and case studies. Each student will be a member of a team. Individual and team assignments will be given. The final team project provides a way for students to present independent research (a review of a financial technology, system, or a case study). Teams will propose a topic, get feedback, and approval, and complete a professional report and formal presentation.

Readings

The reference text for the course is: *Introduction to Financial Technology* by Roy S. Freedman, Academic Press, 2006, ISBN: 0123704782.

Other material consisting of papers, case studies, and selected news articles are available at the course website:

<http://inductive.net/fe/7251/7251.htm> (password provided in class).

Course Requirements

Students must submit all of the following deliverables to be eligible for an A:

- 1) At least one* optional discussion question assignment *per week* (assigned during class). This is due at the next class meeting.
- 2) Your *individual* performance on a surprise quiz.
- 3) Your participation in the team assignments (1 or 2).
- 4) Your team's project proposal – due at least 2 weeks before your presentation at the final meeting (the Class Seminar).
- 5) Your team's project Report – due at the Class Seminar.
- 6) Your team's project Presentation the Class Seminar
- 7) Your participation at the Class Seminar

Rules for submission

- Email all deliverables to roy.freedman@nyu.edu .
- Put the text “FRE 7251” in the Email subject line, Email text body, and all attachments so your email will be correctly indexed.
- Insert a <space> between FRE and the course number.
- Identify yourself by name and student number in the email subject line. The email text body, and all email attachments must include the names and student numbers of everyone (such as your team members) who helped you work on the assignment. Identify the assignment name as well.

If these rules are not followed there will be a delay in your grade.

Collaboration is encouraged and required. The class will be broken up into teams. Elect a Team Leader who will be responsible for submitting all team work. Identify the contributors and contributions and the name of the team in the email subject line. As long as all collaborators are listed, only one email need be submitted. Identify all collaborators by name and student number. If these rules are not followed there will be a delay in your grade.

Your expected course participation includes reading the assigned material from the textbook or course website before class. Class participation – questions, comments, observations, and feedback – is highly encouraged. Attendance will be taken.

First Team Assignment

Name of Assignment: Algorithm Brokers of High Frequency Trading

Approximate Date: Meeting 4.

Description: As early as 2009, it was recognized that “algorithms are no longer the exclusive remit of hedge funds and stat-arb operations” [Algorithmic Trading Directory, p.1]. Many of these algorithms are smart order routing algorithms that

route orders to places offering best prices. Others algorithms break larger orders into smaller orders and execute the smaller orders over time – thus avoiding the possibility that a large order will negatively impact the execution price (thus reducing front-running and disclosure risk). Most algorithms are offered by specialized brokers who built their systems and interfaces at a considerable investment. Many brokers patent these algorithms. Who are these algorithm brokers?

Homeworks and team assignments count for 60% of the grade. The Team Project, consisting of a proposal, report, and presentation, counts for 40% of the grade.

Proposal for Team Project

Name of Project Proposal: Chosen by Team.

Approximate Date: Meeting 7.

Percentage of final grade: 10%

Description: The goal of the proposal is to prove that your team can do independent research, and present your results in a professional context. You are free to study any topic of interest to you that is related to the class topics. You can do a book report, an article review, a case study, a detailed description of a financial organization, system, or technology, method, or product. There are many papers you can review that are cited in class (“news”) or cited by the text or that are posted on the course web site. Your work can be a review or a case study of someone else’s work – as long as this is unambiguously identified in your title and your references. For example, “A Review of Authored by ...”

I will give you feedback on your proposal and help refine the scope of your study. Your proposal must be approved at least two weeks before presentation. Your proposal must include a set of references you will study.

Presentation and Report for Course Seminar

Name of Project: Chosen by Team – same as Team Proposal (see above).

Date: Last Class Meeting.

Percentage of final grade: 30%

Description: The report should be something you can be proud to cite on your resume and bring to interviews. The report should be at least 6 pages, written professionally, delivered in Word or PDF. It should be a professional review of your study. Make sure that you know the meaning of every word and define every acronym or abbreviation before use. Include page numbers. Formally identify the source of all diagrams, pictures, and quotes. Include a list of references. Include page numbers. Most (at least $\frac{3}{4}$) of your references should be primary sources – not encyclopedias like Wikipedia (note this). When researching material on the web, use <https://scholar.google.com/> for academic papers and legal cases.

The presentation should be something you can be proud to bring to interviews. You should be able to talk about your work for 10-12 minutes. A shorter presentation that covers the major points is better than a longer presentation. *Do not read your

report* during the presentation. Most professionals use PowerPoint (a good guideline is 1 minute per PowerPoint slide), but be careful! Read Edward Tufte's caveats on using PowerPoint.

For more information:

Consult points 6-10 on <http://inductive.net/fe/news/FAQ.htm>.

Weekly Assigned Discussion Questions

Approximate Date: Week after assigned in class

Percentage of final grade: 20%

Schedule

Week	Topics
1	Introduction: Algorithmic Trading vs. High Frequency Trading Fisk vs. FPGA, Co-location, and other strategies
2	Nasdaq vs. Archipelago vs. NYSE: the end of traditional exchanges Case Study: DATEK and the "SOES Bandits"
3	Regulating Algorithmic Trading: preventing front running and gaming Case Study: The End of Datek?
4	Pattern Recognition and Patents Case Study: PDQ LLC
5	A Taxonomy of Algorithms: Jargon and Order Management Case Study: Algorithmic Trading Directory
6	FIX vs. FAST Implementing HFT and Algos
7	Seminar: Team Presentations and Reports

Standards and Plagiarism

You are not allowed to present other people's work as your own. Summarize in your own words ("paraphrase"), quote, cite, and provide a professionally formatted reference.

Copying violates professional standards. Review the NYU Code of Conduct at

- <https://engineering.nyu.edu/sites/default/files/2018-06/code-conduct2-2-16.pdf>
- <http://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/educational-and-research-uses-of-copyrighted-materials-policy-st.html>

For more information:

Consult point 5 on <http://inductive.net/fe/news/FAQ.htm> .

Moses Center Statement of Disability

If you are student with a disability who is requesting accommodations, please contact New York University's Moses Center for Students with Disabilities at 212-998-4980 or mosescsd@nyu.edu. You must be registered with CSD to receive accommodations. Information about the Moses Center can be found at www.nyu.edu/csd. The Moses Center is located at 726 Broadway on the 2nd floor.