

Man vs. Machine: Liquidity Provision and Market Fragility

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Question

- Do Algorithmic Traders (AT) withdraw (or reduce their participation and liquidity provision) in turbulent periods?
- Obvious Regulatory and Academic Implications

Findings

- AT significantly reduce their participation and liquidity provision under extreme conditions
- Reinforce regulatory concerns about AT

- Well executed study
- Univariate analysis
- Difference-in-Difference
- Multivariate Analysis
- Logit Modeling of AT

Concerns and Suggestions

- Is it withdrawal or simply lower participation under higher volume? They may have different implications.
- I would like to see trading volume numbers in addition to Participation and Liquidity Provision in Tables 3 and 4 (Univariate Results)

Sample of Extreme Conditions (Table 3)

- High Volatility (201 observations)
- High Spreads (141 observations)
- High Order Imbalance (10 observations)
- Any of the three conditions (347 observations)
- Three extreme conditions appear to be primarily mutually exclusive ($201+141+10 = 352$)

Turbulent/Stress Conditions

- High Volatility with no order imbalance and normal spreads could imply larger information driven price changes with no information asymmetry. Is that necessarily a turbulent or stressful condition.

Suggestions

- Sub-divide high volatility observations into return terciles and report returns and trading volume in addition to participation and liquidity provision. Differences across the terciles may provide additional insights.

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Conclusion

- Congratulations on a well-thought and well-executed study
- Best wishes for its publication