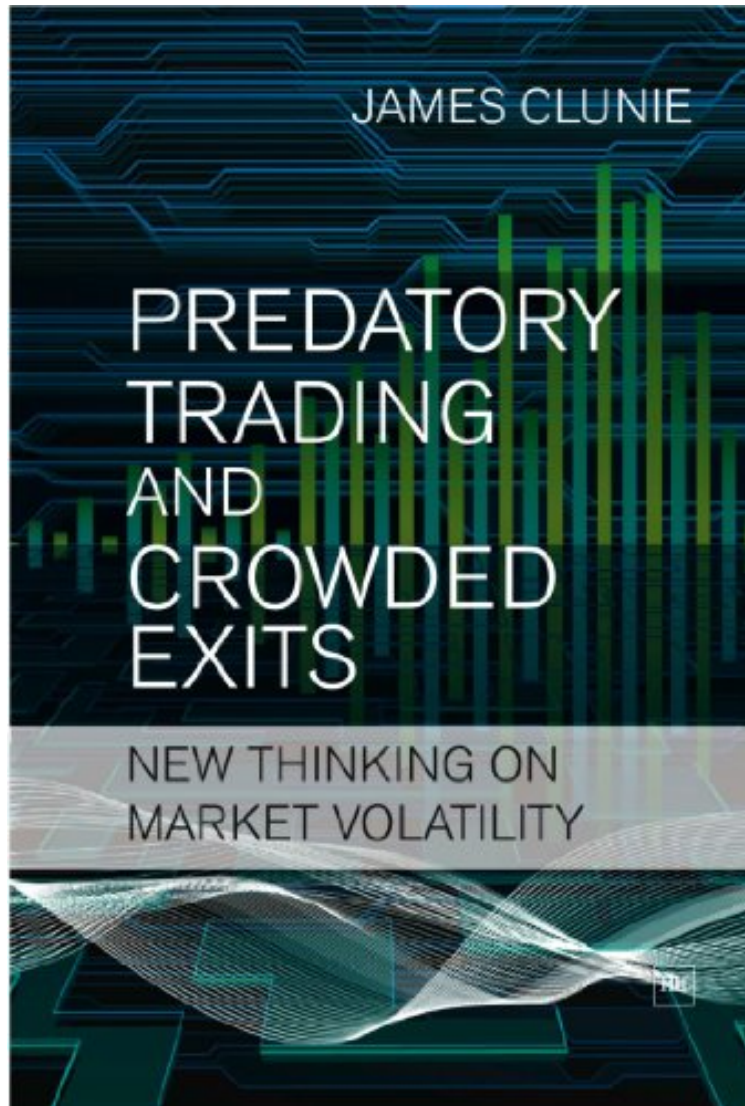


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Predatory Trading and Crowded Exits: New thinking on market volatility

Clunie James

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Clunie James : Predatory Trading and Crowded Exits: New thinking on market volatility before purchasing it in order to gage whether or not it would be worth my time, and all praised Predatory Trading and Crowded Exits: New thinking on market volatility:

0 of 0 people found the following review helpful. They're squeezing me outBy DashNYI enjoyed reading this book, especially the parts about short squeezes and the crowded exits. I believe it's important to understand at which levels investors will feel the pain and start dumping their positions. Those are the opportunities for a short term trader.The

chapters on predatory trading are also good. They give an explanation on how a prime brokerage firm would trade against its own client. Such activity is obviously illegal and extremely unethical but it's hard to prove. It's nice to know what to expect from a broker. Not every broker would but it certainly could. Note to reader: you can skip all the quantitative analysis in the book, unless you're into statistics and math. 3 of 3 people found the following review helpful. some nuggets of information By Narada But they are buried in a disorganized, turgidly written book, with too many (and too long) words per idea communicated, and many undefined trading terms (a random sampling IS defined). The author was educated in the UK, so at least the grammar is correct. Once the dross is sifted out, the book actually has some good examples of the sort of analysis that goes into quant trading, together with some (possibly arbed out, possibly not -- for you to discover) trading ideas. 4 of 4 people found the following review helpful. How do financial markets actually work? By George Hariton This book discusses situations where financial markets are not "efficient" and where traders might be able to make (or lose) vast amounts of money as a result. While most of this applies to very large traders, e.g. pension plans, mutual funds, hedge funds, some of the lessons are important for individual investors as well. The common thread is that some markets are not very liquid, i.e. buying or selling a large amount of the security can lead to a change in the price. If someone knows that a large investor is about to liquidate a position, he or she can make money by selling ahead of the event, and buying back afterward. As an example, some financial institutions are not allowed to hold bonds rated below BBB. If someone thinks that a downgrade to below BBB is coming for some bonds, and also knows that a large institution holds a large quantity of that bond, the price of the bond is about to fall, and there is a profitable trading opportunity. Another example occurs when a stock is added to, or dropped from, a market index such as the S P 500. With the huge growth in index funds recently, such an addition will require a lot of buying (or selling in the case of a stock being dropped), with resultant pressure on prices, and so trading opportunity. This is especially true of indexes that include smaller, less liquid companies. In some cases, if a large player knows that someone will be forced to sell a security, because of restrictions on its investment positions or otherwise, the large player can trade ahead of that event, selling the security and lowering the price even more. The idea is then to buy back the security when the distressed seller has been forced to sell at an even lower price. Such "predatory trading" is a form of front-running, and its legality is still an open question. But, as the author documents, it is happening. One way to avoid being a victim of predatory trading is to be less transparent in one's holdings and one's trading strategies. The predators can "get" you only if they can predict what you are about to do. Other examples of illiquid markets are "noisy exits", when there are many short sellers, and they all try to cover their positions at the same time. Here, there are not enough shares out there for all the short sellers to borrow (or renew their loan of shares), and they must rush to purchase the shares on the open market, again driving prices up and up. The author covers a number of other situations, e.g. whether use of stop-loss orders is worthwhile. Here, the conclusion is that the average return over time will be about the same as without the use of stop-losses, but that use of stop-loss will lead to fewer big losses and lots more small losses. This may be useful to investors who have trouble selling their losers, something which affects individual investors and professionals as well. And stop-losses don't work at all when markets become illiquid, as we found out in 1987. For each of these, the author does a good job of describing the strategy, giving real-life examples, and briefly summarizing the empirical academic literature. He is very clear and has a light touch, not getting bogged down in theoretical models and econometric studies. Rather, he picks out just enough to be informative. The result is helpful to general readers interested in what actually happens in financial markets, as well as to people who believe markets are efficient, or act as if they do. This book looks as if it is the author's Ph.D. thesis, converted into a book for a wider audience. However, it is clear that the author was, and still is, an active trader, and it is the trader's point of view that is reflected. Market professionals undoubtedly know all this. For the rest of us, who don't, this is a very informative book. The only criticism I have is that the writing style is not always very elegant, and can, at times be downright turgid. That's why I'm giving it only four stars instead of five.

In this book, James Clunie looks at a series of market phenomena that involve security prices moving temporarily away from their 'fair value', creating opportunities for traders to profit (and the risk of losses for the unaware). These phenomena have only recently begun to be well understood and key among them are those known as 'predatory trading' and 'crowded exits'. The author examines these on three levels. Firstly, he describes the basic principles and theory behind each phenomenon, to build a solid framework for the way a trader should think about these situations. Secondly, he examines the accumulated empirical evidence of these situations. This gives an idea of what generally happens in these situations, and what the profit opportunity and the risks might be like. Finally, the author considers a number of individual cases to illustrate what can happen to traders in practice. Often, these will be special situations or extreme events from history, but always cases from which the trader can learn. By understanding these phenomena thoroughly in this way, a trader can gain an edge over others in the market. In the first instance by avoiding becoming the victim of the phenomena and secondly by using detailed knowledge of these situations to (legally and ethically) profit from the events. This book is for traders looking to gain an edge through a superior understanding of how markets work, both in theory and in practice. It will also be of interest to longer-horizon investors who are seeking to avoid timing errors, and to risk managers wanting to understand better the subtleties of risk beyond traditional risk

statistics.

From the Inside Flap In this book, the author looks at a series of market phenomena that involve security prices moving temporarily away from their 'fair value', creating opportunities for traders to profit (and the risk of losses for the unaware!). The phenomena he examines have only recently begun to be well understood. They include 'predatory trading' and 'crowded exits'. He examines these on three levels: Firstly, he describes the basic principles and theory behind each phenomenon, to build a solid framework for the way a trader should think of these situations. Secondly, he examines the accumulated 'empirical' evidence on these situations. This gives an idea of what generally happens in these situations, and what the profit opportunity and the risks might be like. Finally, the author considers a number of individual cases to illustrate what can happen to traders in practice. Often, these will be special situations or extreme events from history, but always cases from which the trader can learn. By understanding these phenomena thoroughly in this way, a trader could gain an 'edge' over others in the market. In the first instance, this is achieved by avoiding becoming the victim of the phenomena the author describes. Secondly, it might be possible to use detailed knowledge of some of these situations to (legally and ethically) profit from the events. This book will be of interest to traders seeking to gain an 'edge' through a superior understanding of how markets work, both in theory and in practice. It will also be of interest to longer-horizon investors who are seeking to avoid timing errors, and to risk managers seeking to understand better the subtleties of risk beyond traditional risk statistics. Finally, academics and students of markets will find this work stimulating and thought provoking.

About the Author James Clunie works at Scottish Widows Investment Partnership (SWIP), where he is responsible for managing a UK equity long-short fund and a long-only fund. Previously, he was at the University of Edinburgh for four years, conducting research into stock lending and short-selling. He also set up and ran their Masters programme in Finance and Investment. Prior to this, Clunie worked at Murray Johnstone International, where he was head of asset allocation, and at Aberdeen Asset Management, where he was head of global equities. He graduated with a BSc (Hons) in Mathematics and Statistics and recently completed his PhD on indirect short-selling constraints, both at the University of Edinburgh. He is a chartered financial analyst.