

Is Algo Trading dead?

By, Manish Jalan

How many people you know has really made any or much money in long run using algo trading systems? I have been around for almost 7 years now and have met 100's of players in this field – but know only of a handful of them who have been successful.

Is Algo trading dead? Just when you thought Algo trading is the next big wave which is going to replace any manual methods we know of in trading and investment, why am I writing its epitaph?

The way I look at it, is that Algo trading is dead for people who have either burnt their fingers badly trying to reap maximum benefit in shortest possible time or who thinks that Algo trading is more like a Federal Bank machine which will keep printing money.

First things first – An Algo system is only a pattern which has occurred in the past. Unlike a deterministic pattern like a Google Page Rank mechanism (How many times have you got an exact match of the page you are looking at in Google – quite often you would say!), markets are governed by probabilistic space and hence Algo systems are themselves poised with failure given the probabilistic component of the market. What it means is that the patterns of the past might not occur in the future with 100% certainty. If it did, it will be quickly crowded by smart guys around till it stops working!

Hence, Algo trading ends up becoming a data crunching exercise for most professionals who become hind-sight billionaires by making tons of money in their back-tests. Algo trading finally ends like a dead-dream for such professionals when the rubber hits the road and they run their systems in live markets with little or no success. I

have met more people who belong to this category then otherwise!

There are less than 5% patterns which repeat in the market with high degree of certainty. Even with these patterns, risk management and getting the basics right sometimes becomes a challenge. Of course there is no secret recipe on what these 5% patterns are – but I have usually noticed people who apply their systems to a varied asset classes like equities, commodities, currencies, fixed income and see the system giving result with some amount of accuracy in each of these classes are usually more successful.

Systems which work very well in say commodities, but are a massacre in equities, are likely to face turbulent times – more then system which on an average has performed OKaish on both the asset classes. The reason is not hard to imagine, as commodities sometimes do lose their volatility and becomes like equity trading in a very narrow range and vice versa. Hence, I would put my money on systems of second kind where I get average returns on both commodities and equities rather making a fortune on commodities and losing my shirt in equities.

Algo trading is the most challenging subjects today in the finance world, when a system which is supposed to be predictable and consistent in nature meets the uncertain market environments on a day to day basis. Algos which weather the storm, makes riches and glory for its maker while others become dead – only to be talked about in books and financial papers – for academic purposes!

About Samssara Capital Technologies LLP

Samssara Capital Technologies LLP (“Samssara”) is an investment solutions firm focused solely on developing automated algorithmic and quantitative trading and investment strategies. It was launched in 2010 by a team of IIM Ahmedabad and IIT Bombay graduates - Rajesh Baheti, Manish Jalan and Kashyap Bhargava. Samssara caters to its clients' needs of providing an alternative asset management vehicle, with the focus on 100% automated and quantitative trading strategies.

Samssara’s products vary from pair trading (statistical arbitrage), factor models, Nifty Index beating products to very high frequency trading strategies. The team at Samssara works on mathematical models and statistics that identify repetitive patterns in equity, commodity and currency markets. The addressable market for Samssara is global - as the firm can develop and build models which can function in both developing markets with limited competition and developed markets with strong competition. Samssara’s client base includes the leading international and domestic banks, international and domestic stock brokers, family offices, corporate treasuries and HNIs.

Profile of Manish Jalan

Manish Jalan is the Chief Strategist and Director of the Algo trading firm Samssara Capital Technologies LLP. Prior to his new found Indian venture, Manish was a Quantitative Prop Trader in Tokyo, with Merrill Lynch Prop Desk handling USD 100 Mn. portfolio. Manish has worked closely with many Indian brokers and numerous International banks in algorithmic trading, trend following strategies, statistical arbitrage, factor modeling and back testing. Manish is a B.Tech and M.Tech from IIT Bombay in Mechanical Engineering.

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