<table>
<thead>
<tr>
<th>Topic</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accuracy of information</td>
<td>15–16</td>
</tr>
<tr>
<td>Active Portfolio Management (Grinold and Kahn)</td>
<td>109</td>
</tr>
<tr>
<td>Adverse selection</td>
<td>247, 267, 270</td>
</tr>
<tr>
<td>Adverse selection bias</td>
<td>95, 122</td>
</tr>
<tr>
<td>Aggressive orders</td>
<td>120–124, 244–245, 250–252</td>
</tr>
<tr>
<td>Aite Group</td>
<td>6</td>
</tr>
<tr>
<td>Aleynikov, Sergey</td>
<td>237</td>
</tr>
<tr>
<td>Algorithmic execution</td>
<td>4–5, 119–128</td>
</tr>
<tr>
<td>Algorithmic trading</td>
<td>7, 239</td>
</tr>
<tr>
<td>Algorithms, order execution</td>
<td>7, 18, 119–128</td>
</tr>
<tr>
<td>Aggressive vs. passive</td>
<td>121–124</td>
</tr>
<tr>
<td>high-speed trading</td>
<td>253–256 (see also High-speed trading)</td>
</tr>
<tr>
<td>Intermarket sweep orders (ISOs)</td>
<td>125–126</td>
</tr>
<tr>
<td>large vs. small orders</td>
<td>127</td>
</tr>
<tr>
<td>market and limit orders</td>
<td>125</td>
</tr>
<tr>
<td>smart order routing</td>
<td>127–128</td>
</tr>
<tr>
<td>All-or-none order</td>
<td>125</td>
</tr>
<tr>
<td>Alpha</td>
<td>15</td>
</tr>
<tr>
<td>defined</td>
<td>23</td>
</tr>
<tr>
<td>fast alpha</td>
<td>273–274, 276</td>
</tr>
<tr>
<td>portfolio</td>
<td>229–230</td>
</tr>
<tr>
<td>time decay of</td>
<td>160–162</td>
</tr>
<tr>
<td>Alpha-driven weighting</td>
<td>97–98</td>
</tr>
<tr>
<td>Alpha models</td>
<td>23–64</td>
</tr>
<tr>
<td>bet structure</td>
<td>49–51</td>
</tr>
<tr>
<td>blending of</td>
<td>56–62</td>
</tr>
<tr>
<td>characteristics of</td>
<td>17–18, 20, 68</td>
</tr>
<tr>
<td>conditioning variables</td>
<td>53–55</td>
</tr>
<tr>
<td>data-driven</td>
<td>24–26, 42–45</td>
</tr>
<tr>
<td>definition in</td>
<td>52–53</td>
</tr>
<tr>
<td>forecast target</td>
<td>46</td>
</tr>
<tr>
<td>investment universe</td>
<td>51–52</td>
</tr>
<tr>
<td>permutations of</td>
<td>56</td>
</tr>
<tr>
<td>risk management elements</td>
<td>72–73</td>
</tr>
<tr>
<td>run frequency</td>
<td>55</td>
</tr>
<tr>
<td>strategy implementation</td>
<td>45–56</td>
</tr>
<tr>
<td>theory-driven</td>
<td>26–42</td>
</tr>
<tr>
<td>time horizon</td>
<td>47–49</td>
</tr>
<tr>
<td>types of</td>
<td>24–26</td>
</tr>
<tr>
<td>American Recovery Act</td>
<td>202</td>
</tr>
<tr>
<td>Arbitrage</td>
<td></td>
</tr>
<tr>
<td>index arbitrage</td>
<td>260, 271–272</td>
</tr>
<tr>
<td>latency arbitrage</td>
<td>284</td>
</tr>
<tr>
<td>merger arbitrage</td>
<td>186–187</td>
</tr>
<tr>
<td>statistical arbitrage</td>
<td>7, 14, 31–32, 191</td>
</tr>
<tr>
<td>venue arbitrage</td>
<td>272</td>
</tr>
<tr>
<td>Arms race to zero</td>
<td>256</td>
</tr>
<tr>
<td>Assessment of quants. See Evaluation of quants and strategies</td>
<td></td>
</tr>
<tr>
<td>Asset class, and investment universe</td>
<td>51</td>
</tr>
<tr>
<td>ATM effect</td>
<td>186, 188</td>
</tr>
<tr>
<td>Average rate of return</td>
<td>154</td>
</tr>
<tr>
<td>AXA Rosenberg</td>
<td>180</td>
</tr>
<tr>
<td>Axcom</td>
<td>30</td>
</tr>
<tr>
<td>Backwardation</td>
<td>39</td>
</tr>
<tr>
<td>Bad prints</td>
<td>140</td>
</tr>
<tr>
<td>Ball, Ray</td>
<td>37</td>
</tr>
<tr>
<td>Bamberger, Gerry</td>
<td>31</td>
</tr>
<tr>
<td>Bank of America</td>
<td>15</td>
</tr>
<tr>
<td>Barclay Hedge</td>
<td>6</td>
</tr>
<tr>
<td>Bayesian statistics</td>
<td>62–63</td>
</tr>
<tr>
<td>Bear Stearns bailout</td>
<td>185–186</td>
</tr>
<tr>
<td>Beller, Mark</td>
<td>262</td>
</tr>
<tr>
<td>Berlekamp, Elwyn</td>
<td>30</td>
</tr>
<tr>
<td>Beta</td>
<td>23, 35</td>
</tr>
<tr>
<td>Bet structure</td>
<td></td>
</tr>
<tr>
<td>characteristics of</td>
<td>49–51</td>
</tr>
<tr>
<td>importance of</td>
<td>230</td>
</tr>
<tr>
<td>Big data</td>
<td>304</td>
</tr>
<tr>
<td>Black box</td>
<td></td>
</tr>
<tr>
<td>origination of term</td>
<td>14</td>
</tr>
<tr>
<td>schematics of</td>
<td>17, 64, 77, 90, 114, 131, 146, 171</td>
</tr>
<tr>
<td>trading system characteristics</td>
<td>19</td>
</tr>
</tbody>
</table>
Black Box, The (film), 14
Black-Litterman optimization, 108–109
Bollerslev, Tim, 102
Bond market, 37–38, 73–75
Book-to-price ratio, 38–39
Book yield, 38
Breakout trading, 205
Brokers, functions of, 117, 118–119, 129
Buffett, Warren, 24
Calmar ratio, 159–160
Cancellation rates, 286–288
Carry trades, 37–38
Chhikara, Sudhir, 145
Circuit breakers, 298
Clearing, 80
CMMs (contractual market makers), 265–269
Colocation, 129
Commodity trading advisors (CTAs), 6, 28
Common investor risk, 186–193
Competition, unfair, 280–283
Conditional models, 60–61
Conditioning, 28
Conditioning variables, 53–55
Constrained optimization, 106–108
Constraints, hard, 69
Contagion risk, 186–193
Contango, 39
Contractual market makers (CMMs), 265–269, 284
Contrarians, 31, 35
Correlation coefficients, 177
Correlation matrix, 103–105
Credit crisis beginning in 2007, 10
Criticisms of quant trading, 197–213
art/science debate, 197–198
data mining, 210–213
handling of market changes, 204–205
quant similarities/differences, 206–207
underestimation of risk, 199–204
vulnerability of small quants vs. large, 207–210
CRM (customer relationship management) software, 211
Cross-connects, 253
CTAs (commodity trading advisors), 6, 28
Cumulative profits, 154
Currency trading, 38
Current market conditions, 44
Dark exchanges, 128
Dark liquidity, 128
Dark pools, 81, 84, 128
Data, 133–146
asynchronicity in, 142–144
cleaning, 139–144, 218, 219
fundamental, 135–137 (see also
Fundamental data strategies)
importance of, 19, 133–135
incorrect, 135, 139–144
missing, 139–140
sources of, 137–138
storing, 144–145
types of, 135–137
Data burning, 169
Data bursts, 254, 257–259
Data cubes, 145
Data-driven alpha models:
applications, 24–26, 42–45
compared with theory-based alpha model, 43
implementation of, 42–56
Data-driven risk models, 70
Data edge, 225–226
Data feed handlers, 133
Data miners/mining, 25, 43–44, 111, 210–213
Data sourcing, 218, 219
Data vendors, 137–138
Defining trends, 52–53
Dennis, Richard, 150
D. E. Shaaw, 150
Directional bets, 50
Directional forecasts, 101
Direct market access (DMA), 117, 129
Discretionary investment style, 9, 11, 16, 151
Dispersion, 70
Diversity:
in alpha models, 56
of revenue sources, 41
Dividends, 141
Dividend yield, 36
DMA (direct market access), 117, 129
Dodd, David, 37
Donchian, Richard, 28–29, 149
Dot-com bubble, 24, 30, 200, 290. See also
Internet Bubble
Drawdowns, 100, 114, 155–156, 164, 200, 226
Dutch tulip mania, 30

Earnings quality signal, 41
Earnings yield (E/P), 36, 60
EBITDA (earnings before interest, taxes, depreciation, and amortization), 38
Eckhardt, William, 150
ECNs (electronic communication networks), 84
Edge, 223–227
Efficient Asset Management (Michaud), 110
Efficient frontier, 99
Einstein, Albert, 148, 164
Electronic communication networks (ECNs), 84
Empirical risk models, 74–75
Empirical scientists, 25–26
Enterprise value (EV), 38
Equal position weighting, 94–96
Equal risk weighting, 96–97
Equal-weighted model, 59–60
Equity risk premium, 153–154
Evaluation of quants and strategies. See Quant strategies evaluation; Quant trader evaluation
Exchange fees, 81
Execution, 117–131
components of, 117–119
evaluating, 219, 220
monitoring, 194
order execution algorithms (see Algorithms, order execution)
trading infrastructure, 128–130
Execution models, 17–18
Exogenous shock risk, 184–186
Expected correlation matrix, 99, 103–105
Expected returns, 101
Expected volatility, 101
Exposure monitoring tools, 193–194
Facebook IPO, 286
Factor portfolios, 109–110
Fairness of price, 247
Falsification, 148
Fama, Eugene, 35
Fama-French three factor model, 35
Fast alpha, 273–274, 276
Fat tails, 177
Fill-or-kill order, 125
Filtering, 28
Financial crises, 176–177, 185–186, 290
bear market of 2000-2002, 204
Credit crisis beginning in 2007, 10
economic crisis starting in 2008, 201–204
October 1987 market crash, 5, 204
quant liquidation crisis of 2007, 186–193, 199, 200, 247
Russian debt crisis, 10, 187, 200
summer of 1998, 204
Financial engineering, 203
Financial Information eXchange (FIX) protocol, 129–130
Financial transaction tax (FTT), 297–298
FIX (Financial Information eXchange) protocol, 129–130
Flash Crash, 5, 238, 247, 288, 289, 294–296
Flat files, 144
Flat transaction cost models, 86–87
Flight-to-quality environments, 40
Forecasting, 24, 82, 101
Forecast targets, 46
Foreign exchange markets, 6
Fragmentation, 287, 295
Francioni, Reto, 7
Fraud risk, 41
French, Kenneth, 35
Frequentist statistics, 63
Front-running, 283–286
FTT (financial transaction tax), 297–298
Fundamental data, 135–137
Fundamental data strategies:
growth/sentiment, 39–40
quality, 40–42
value/yield, 35–39
Futures contracts, 39, 140–141, 149, 255, 263, 271
Futures markets, 6, 17, 28–29, 39, 46
Futures trading, 28, 129

Generalized Autoregressive Conditional Heteroskedasticity (GARCH), 102
Geography, and investment universe, 51
Global Alpha Fund, 5
Goldman Sachs, 5, 150, 237
Good-till-cancelled order, 125
Graham, Benjamin, 37
Great Depression, 200
Greater fools theory, 28
Griffin, Ken, 202
Growth stocks, 182
Growth strategies, 39–40

Hard constraints, 69
Hard-to-borrow list, 99, 170
Hardware, 130
Hedge funds, 6, 29, 163, 188, 190, 201–202, 208, 298, 305–306
Hibernia Atlantic, 256
Hidden orders, 124–125
High-frequency trading/traders (HFT), 5, 259–260, 265–277
and advantage of speed, 280–283
arbitrage, 271–273
contractual market making, 265–269
controversy regarding (see High-frequency trading (HFT) controversies)
defining, 239–240
fast alpha, 273–274
and high-speed trading (see High-speed trading)
index arbitrage, 260, 271–272
noncontractual market making, 269–271
overview, 237–241
and portfolio construction, 276
revenues from, 240–241
and risk checks, 261–262
risk management approaches, 274–276
venue arbitrage, 272
High-frequency trading (HFT) controversies:
front-running and market manipulation, 283–286
market manipulation, 283–284, 286–289
regulatory considerations, 297–299
social value of, 296–297
unfair competition, 280–283
volatility and structural instability, 289–296
High-speed trading, 243–263
aggressive orders, 244–245, 250–252
data bursts, 257–259
defining, 243
delays in order transmission, 253–256
order books, 256–257
passive orders, 244, 247–250, 252
risk checks, 260–262
signal construction, 259–260
sources of latency, 252–262
why speed matters, 244–252
Historical data, 9, 35, 44, 70, 74–75, 109, 139, 152, 170, 180–181, 204, 210–213
Historical regression, 59
Historical trends, 180–181
Hite, Larry, 29
Hit rate, 194
Hop, 261
Housing bubble, 202–203
Human Genome Project, 25
Iceberging, 125
Idea generation, 149–151
Implied volatilities, 42
Improving, defined, 246
Index arbitrage, 260, 271–272
Information ratio, 159
In-sample research, 152–153
Instrument class, 51
Interest rate risk, 74
Intermarket sweep orders (ISOs), 125
Internet Bubble, 74, 168, 182. See also Dot-com bubble
Interrogator, The (Toliver), 216–217
Inventory risk, 270
Investment process edge, 224–225
Investments, evaluating, 219
Investment universe, 51–52
Investor sentiment, 34
Iraq War, 185
ISOs (intermarket sweep orders), 125
Joining, defined, 246
Knight Capital, 263
Knight Trading, 179–180
Krugman, Paul, 296
Lack-of-competition edge, 226
Latency arbitrage, 284
Latency trading, See High-speed trading
Leverage risk, 276
Leverage, 16, 41–42, 71–72, 187–190, 192
Limit order book, 121
Limit orders, 122, 123. See also Passive orders
Linear models, 58–60
Linear transaction cost models, 87
Liquidity:
defining, 247
implications of, 51–52, 246–247
quant liquidation crisis of 2007, 186–193
in rule-based portfolio construction, 96
and transaction costs, 83, 84
Liquidity pools, 127–128
Liquidity provision, 123
Lit exchanges, 128, 269
Live production trading system, 19
Long Term Capital Management (LTCM), 4, 9, 187, 208
Long-term strategies, 49, 230, 238
Look-ahead bias, 142–144
Low-latency trading. See High-speed trading
LTCM. See Long Term Capital Management (LTCM)
Lumpiness, 155
Machine learning models, 58, 61, 111, 304
Madoff, Bernie, 229
Managed futures, 28
Management quality, 41
Man Group, 29
Market Access Rule, 261
Market crash of 1987, 5, 204
Market inefficiencies, 7–8
Market makers, 266, 280–283
Market manipulation, 283–284, 286–289
Market-on-close orders, 125
Market orders, 245, 251–252
Markowitz, Harry, 98, 150
Mars Climate Orbiter (MCO), 134–135
Matching engines, 253
McKay Brothers, 256
Mean reversion strategies, 30–33, 95, 181–182
Mean variance optimization, 98, 99, 150
Medallion Fund, 5
Medium-frequency traders (MFTs), 239
Medium-term strategies, 49
Merger arbitrage, 186–187
Merrill Lynch, 15
Michaud, Richard, 110
Microsoft (MSFT), 41
Mid-market, 120
Millenium Partners, 151
Mint Investments, 29
Model definition, 52–53
Model risk:
implementation errors, 179–180
inapplicability of modeling, 176–178
model misspecification, 179
Modern portfolio theory (MPT), 99
Modifying conditioner, 54
Momentum strategies, 95
Monte Carlo Simulation, 110
Mortgages, securitized, 176–177
Moving average crossover indicator, 28
MPT (modern portfolio theory), 99
Multiple regression, 59
Naked access, 261, 297
Naked short sale, 170
Newedge Alternative Investment Solutions, 6
Newton, Isaac, 148
Noncontractual market makers (NCMMs), 269–271, 284
Nonlinear models, 58, 60–61
Objective function, 93, 99
Occam’s razor, 163–164
Opaqueness, 14
Optimization techniques. See Portfolio optimization techniques
Optimizers. See Portfolio optimizers
Options markets, 34
Order books, 244–245, 256–257
Order execution. See Execution
Order execution algorithms. See Algorithms, order execution
Order flow internalizers. See CMMs (contractual market makers)
Order transmission:
data bursts, 257–259
between market centers (see also Algorithms, order execution)
to and from market centers, 253–254
between market centers, 254–256
Organization of information, 218
Out-of-sample testing, 167–169
Overfitting, 162–167, 211–213
Pairs trading, 7, 14
Parameter fitting, 165–166
Parameters:
determining, 53
sensitivity to, 162
Parsimony, 163
Passive orders, 120–124, 244, 267
canceling, 252
in contractual market makers (CMMs), 266–267
Passive orders (continued)
need for speed with, 247–250, 252
in noncontractual market making
(NCMM), 269–270
placing, 247–250, 287
PCA (principal component analysis), 74
Penalty functions, for size limits, 69
Percentage winning trades, 159
Piecewise-linear transaction cost models, 87–88

Pioneering Portfolio Management
(Swenson), 13
Popper, Karl, 148, 164
Portfolio bidding, 118
Portfolio construction, 229–231
elements of, 64
evaluating, 219, 220
in high-frequency trading, 276
Portfolio construction models, 62, 93–113
choosing, 113
elements of, 17–18, 20
goal of, 93
optimizers, 93–94, 98–112
output of, 112–113
rule-based, 93, 94–98
Portfolio insurance, 197
Portfolio of strategies, 160
Portfolio optimization techniques, 105–111
Black-Litterman optimization, 108–109
constrained optimization, 106–108
data-mining approaches, 111
factor portfolios, 109–110
resampled efficiency, 110–111
unconstrained optimization, 106
Portfolio optimizers, 98–114
inputs to optimization, 101–105
optimization techniques, 105–111 (see also Portfolio optimization techniques)

“Portfolio Selection” (Markowitz), 150
Predictive power, 157–158
Price data, 135–137
Price/earnings-to-growth (PEG) ratio, 39
Price-related data strategies:
mean reversion, 30–33
technical sentiment, 34–35
trend-following, 27–30
Price-to-earnings (P/E) ratio, 35–36
Primary data vendors, 137–138
Principal component analysis (PCA), 74
Profit-and-loss monitors, 194
Profit-targets, 54
Proximity hosting, 253
Pulte Homes, 190–191

Quadratic transaction cost models, 89–90
Quality investing, 40–42
Quantitative Investment Management, 4
Quantitative risk-modeling approaches, 77
Quantitative trading system:
benefits of, 8–9
high frequency of, 4
implementation of, 6–7, 10–11
long/short positions, 38–40
performance of, 4–5
risk measurement/mismeasurement, 9–10
strategy intervention in, 15–16
structure of, 16–19
volume, 6
Quant liquidation crisis of 2007, 186–193,
199, 200, 247
Quant long/short (QLS), 38–40
Quants:
characteristics of, 14–16
defining, 13, 14
equity investments, 38–40
evaluation of (see Evaluation of quants
and strategies)
future direction for, 303–306
trading strategies (see Quant strategies
evaluation)
Quant strategies evaluation:
goals and importance of, 215–216
information gathering, 216–218
investment process, 218–221
Quant trader evaluation:
edge, 223–227
integrity, 227–229
portfolio fit, 230–231
skill and experience, 221–223
Quanti traders/trading:
criticisms of (see Criticisms of quant trading)
evaluation of (see Quant trader evaluation)
future direction for, 303–306
interviewing, 218–221
negative perceptions of, 4–5
quasi-quant traders, 16
types of, 25–26
Quote stuffing, 286
Refitting, 53
Regime change risk, 180–184
Index

Regime changes, impact of, 204–205
Regulation, 260–262, 297–299
Regulation National Market System (NMS), 125–126, 287, 291, 295
Relational databases, 144–145
Relative bets, 49, 50
Relative value, 51
Renaissance Technologies, 4, 30, 151
Resampled efficiency, 110–111
Resampling, 156
Research, 147–171
   evaluation methods, 218, 219
   idea generation, 149–151
   scientific method, 147–149
   testing, 151–170 (see also Testing, in research)
Returns:
   ratios of, vs. risk, 159–160
   variability of, 155
Risk, 175–195
   common investor/contagion risk, 186–193
   exogenous shock risk, 184–186
   interest rate risk, 74
   inventory risk, 270
   legging risk, 276
   model risk, 176–180
   monitoring tools, 193–195
   regime change risk, 180–184
   systematic risk, 73
   underestimation of, 199–201
Risk-adjusted returns, 99, 159–160
Risk checks, 260–262
Risk exposures:
   measuring, 67
   monitoring tools, 193–194
Risk management, 67–68, 219, 220
   and HFT strategies, 274–276
   size limiting, 69–72
Risk models, 67–77
   characteristics of, 17–18, 68
   choosing, 74–76
   in constrained optimization, 106
   empirical, 74–75
   evaluating, 219
   limiting amounts of risk, 69
   limiting types of risk, 71–76
   measuring risk, 70
   theory-driven, 73, 74–76
Risk targeting, 189
Roll yield, 39
Rotational models, 60, 61
Rothman, Matthew, 206
Royal Dutch, 187
R-squared, 157
Rube Goldberg device, 13
Rule-based portfolio construction models, 93, 94–98
   alpha-driven weighting, 97–98
   equal position weighting, 94–96
   equal risk weighting, 96–97
Run frequency, 55
Russian debt crisis, 10, 187, 200
S&P E-Mini futures contract (ES), 255, 271
Sample bias, 156
Scharff, Hanns Joachim, 216
Scientific method, 147–149
Scientists, types of, 25
Secondary conditioner, 54
Secondary data vendors, 138
Secrecy, 217
Securitized mortgages, 176–177
Security Analysis (Graham and Dodd), 37
Sensitivity, 162
Sentiment-based strategies, 40, 41–42
Sentiment data, 34
Settlement, 80–81
Seykota, Ed, 28
Sharpe, William, 98
Sharpe ratio, 159
Shaw, David, 31
Shell, 187
Short selling, 170, 186, 190, 201–202
Short-term strategies, 49, 230–231, 238
The Signal and the Noise (Silver), 62
Signal-mixing models (of alphas), 61–62
Signal strength, 46
Silver, Nate, 62, 63
Simons, James, 8, 30
Size-limited models, 69–72
Slippage, 81–82, 83, 85, 169, 251–252
Smart order routing, 127–128
Software programs:
   alpha model (see Alpha models)
   back-testing, 176
   CRM, 211
   data errors in, 143
   FIX protocol, 129–130
   implementation errors, 179–180
Soros, George, 200

Speed. See also high-speed trading
  in high-frequency trading (HFT), 280–283

Spike filter, 140–141
Spread Networks, 255–256
Statistical arbitrage, 7, 14, 31–32, 191
Statistical risk models, 74
Statistical techniques, 62–63
Sterling ratio, 159
Stochastic volatility modeling, 101–102

Stocks/stock market. See also High-frequency trading/traders (HFT); High-speed trading
  asynchronicity in, 143–144
  fundamental data, 136
  splits and dividends, 141
  stock picking, 224
  stop limit orders, 125
  stop-losses, 54
  stop-loss policy, 151
  Stop limit orders, 125
  Stop-losses, 54
  Stop-loss policy, 151
  Structural correlation, 271
  Structural edge, 226–227
  Structured products, 202–203
  Stub quotes, 296
  Substitution effect, 112
  Sullenberger, Chelsea, 223–227
  Swenson, David, 13
  Systematic approach, abandoning of, 15–16
  Systematic risk, 73
  Systematic strategies, vs. discretionary strategies, 16
  Systems performance monitors, 195

TABB Group, 6
Tartaglia, Nunzio, 31
Technical sentiment strategies, 34–35
Technical traders, 151
Terrorist attacks, 16, 185
Tertiary data vendors, 138

Testing, in research:
  assumptions of, 169–170
  importance of, 151
  in-sample (training), 152–153
  model “goodness”, 153–163
  out-of-sample testing, 167–169
  overfitting, 162–167
Teza, 237
Theoretical scientists, 25–26

Theory development. See Idea generation

Theory-driven alpha models:
  applications, 25–26
  fundamental data, 35–42
  implementation of, 26–42
  price-related data, 26–35
  Theory-driven risk models, 69–70, 73, 74–76

Theory of gravity, 148

Thesys technologies, 256
Thorp, Ed, 31
Tick-to-trade latency, 261
Time decay, 160–162
Time horizon, 47–49, 53, 230–231, 238
Timestamps, 142, 256
Toliver, Raymond, 216
Trade execution. See Execution
Tradeworkx, 262
Trading assumptions, 169–170
Transaction cost models, 79–89
  characteristics of, 17–18, 20
  costs overview, 80–85
  role of, 79–80, 90
  types of, 85–89
Transaction costs, 107
  commissions, 80, 169
  fees, 80–81, 169
  with high-frequency trading, 169–170
  market impact, 82–85, 169
  minimizing, 79–80
  models (see Transaction cost models)
  slippage, 81–82, 83, 169, 251–252
  Trend-following strategies, 27–30, 32–34, 52–53

Trends, 148
Trust, building, 217

Ultra high-frequency traders (UHFTs), 239
Unconstrained optimization, 106

Value at risk (VaR), 71, 177, 189, 199
Value strategies, 35–39
Variability of returns, 155
Venue arbitrage, 272
Volatility:
  defined, 70
  and equal risk weighting, 96–97
Index

expected, 101
in high-frequency trading, 289–294
implied, 42
of revenues, 41
value at risk (VaR) model, 71
Volume-weighted average price (VWAP), 120
Wasserman, Larry, 63
Weinstein, Boaz, 202
When Genius Failed (Lowenstein), 187
Worst peak-to-valley drawdowns, 155–156
Yield, 35–39, 60