Navigating Long Term Investments in a Short-Term Trading World

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Today’s presentation

- Defining Short-term Trading
- HFT Strategies.
- Trading adjustments and execution tactics for this HFT environment.
- Navigating the short-term noise.
- Principles for long-term investing.

What is High Frequency Trading?

- The automation of many traditional strategies from the trading floor.
- Two main categories:
  - 1) Arbitrage
  - 2) Market Making - Leaning on Orders

Arbitrage

Types:

- Information arbitrage – News algos
- Intermarket arbitrage
- ETF and Index Arbitrage
- Statistical Arbitrage
  - Eg. Pairs trading, sympathy trading

News Algos

- Major headlines – Trump and Tariffs
- News from companies – Earnings, guidance, management changes, insider buys/sells.
- Economic data points – GDP, Jobs, CPI
- Fed Speak – interest rate projections

Index Arbitrage

- S&P500 top 5 components make up 26% of index:
- MSFT 6.68%
- NVDA 6.60%
- AAPL 6.35%
- AMZN 3.86%
- META 2.78%

- Means these stocks have a significant impact on overall market.

ETF Arbitrage and Rotation Within Index

- Scenario: April 12, 2019
- FB beats, trades up 9% after hours
- It makes up almost 5% of QQQ (at the time)
- Means QQQ must go up 0.45% just to account for FB (ignoring other 99 components).
- Sympathy – should bring up other major tech companies within index.
- Means – non-tech in QQQ will likely trade lower to make up the difference.

ETF Arbitrage and Rotation Within Index

39.30	GM	39.27	-0.45	39.26	-26,200	39.52	G
0.00	ABT	76.80	0.05	76.79	0	0.00	H
38.88	GD	179.00	-1.73	178.97	-12,600	179.67	L
72.34	DD						H
25.71	HON	169.81	-1.48	169.72	-62,400	169.32	IB
1,304.75	HSY	122.765	5.70	122.68	0	0.00	J
1,324.75	KR	25.59	0.02	25.58	-200	25.57	P
209.44	MET	44.65	-0.28	44.64	-29,500	44.76	K
138.52	PRU	102.095	-0.67	102.13	-17,700	102.10	P
43.85	PM	83.01	-1.44	83.00	-109,500	83.20	JP
105.46	MO	52.11	-2.60	52.11	-172,900	51.95	C
6.55	PEP	125.395	-1.53	125.39	0	125.65	BA
47.74	COST	245.87	-2.09	245.77	0	246.39	MS
36.95	SBUX	76.19	-0.20	76.18	0	76.13	GS
36.64	WBA	52.95	-0.52	52.95	0	53.37	AI
138.52	KHC	32.59	-0.17	32.59	1,375	32.69	WF
7.55	MDLZ	49.89	-0.49	49.89	4,654	49.92	BM
	CSX	78.29	-1.03	78.28	5,971	78.87	MR
41.81	ADP	161.87	-1.63	161.73	-709	162.76	PF
24.98	ROST	98.25	-0.31	98.31	0	97.59	LL
73.34	MNST	56.30	-0.52	56.27	0	56.26	T
105.46	MAR	135.37	-0.11	135.29	1,566	134.93	VZ
205.72	DLTR	109.76	-0.45	109.76	0	110.16	TR
0.00	MYL	26.1201	-0.32	26.12	0	26.35	UN
43.85	FAST	70.37	-0.98	70.37	2,432	70.73	UT
25.68	HAS	101.88	-1.30	101.70	0	99.25	WM
37.60	FOX	37.37	-0.08	37.36	165	37.48	TGT
51.57	FOXA	37.86	-0.10	37.87	1,684	37.98	XO
0.00	CMCSA	43.015	1.16	43.01	10,505	42.45	CV
0.00	GILD	62.285	-0.52	62.27	1,316	62.50	COP
12.95	PCAR	70.30	-1.18	70.27	0	70.86	LMT
205.72	CTSH	72.82	0.15	72.81	0	72.79	CAG
0.00	CSCO	56.465	-0.41	56.46	0	56.48	K
50.33	JBHT	97.64	-0.86	97.64	0	98.08	CPB
50.95	GNRC	55.15	-1.12	55.15	-3,800	55.80	GIS
199.70	CHTR	361.18	0.68	360.33	601	357.91	MA
47.21	FB	194.602	12.02	194.57	-47,285	197.00	V
138.52	AMZN	913.565	11.82	1913.10	8,739	1,920.00	BABA
103.10	AAPL	207.00	-0.16	206.98	0	206.77	AABA

Risk Arbitrage

- Stock mergers
- DFS and COF, ratio 1.0192
- HES and CVX, ratio 1.0250
- FL and DKS, cash $24

Leaning on Orders - Market Making

- Capturing the spread.
- Picking up pennies in front of a bulldozer.
- Manage Adverse Selection Risk – by Leaning
  - The risk of getting picked off by informed traders

Leaning on Orders - Rebate Trading

Trading for rebates offered by exchanges.

HFT Advantages

HFT Strategies and Advantages over other Traders

Typical HFT Strategies	HFT Advantages over other traders
Market making Rebate Trading Arbitrage	- Speed - PFOF arrangements, gives ability to jump the order "queue". - Ability to multi-task on exponential levels

Monopolized Top of Queue

Bottom Line:

HFT has monopolized the top of the order queue.

Means non-HFT is at the back of the order queue.

The spread is the HFT Toll

Think about the spread: the difference between the bid and the ask, as the HFT toll.

Sitting Duck

Sitting limit orders out there makes you a sitting duck!

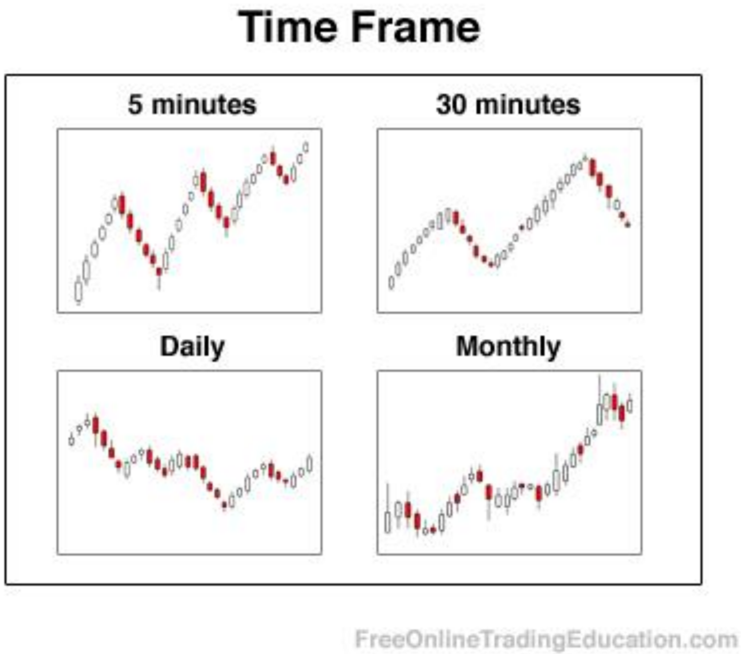
Tip #1 - Adjust Execution Tactics

Instead of passive limit orders:

1) Use **marketable limits** where you take liquidity (avoid market orders though)
2) Discretionary orders
3) Midpoint orders

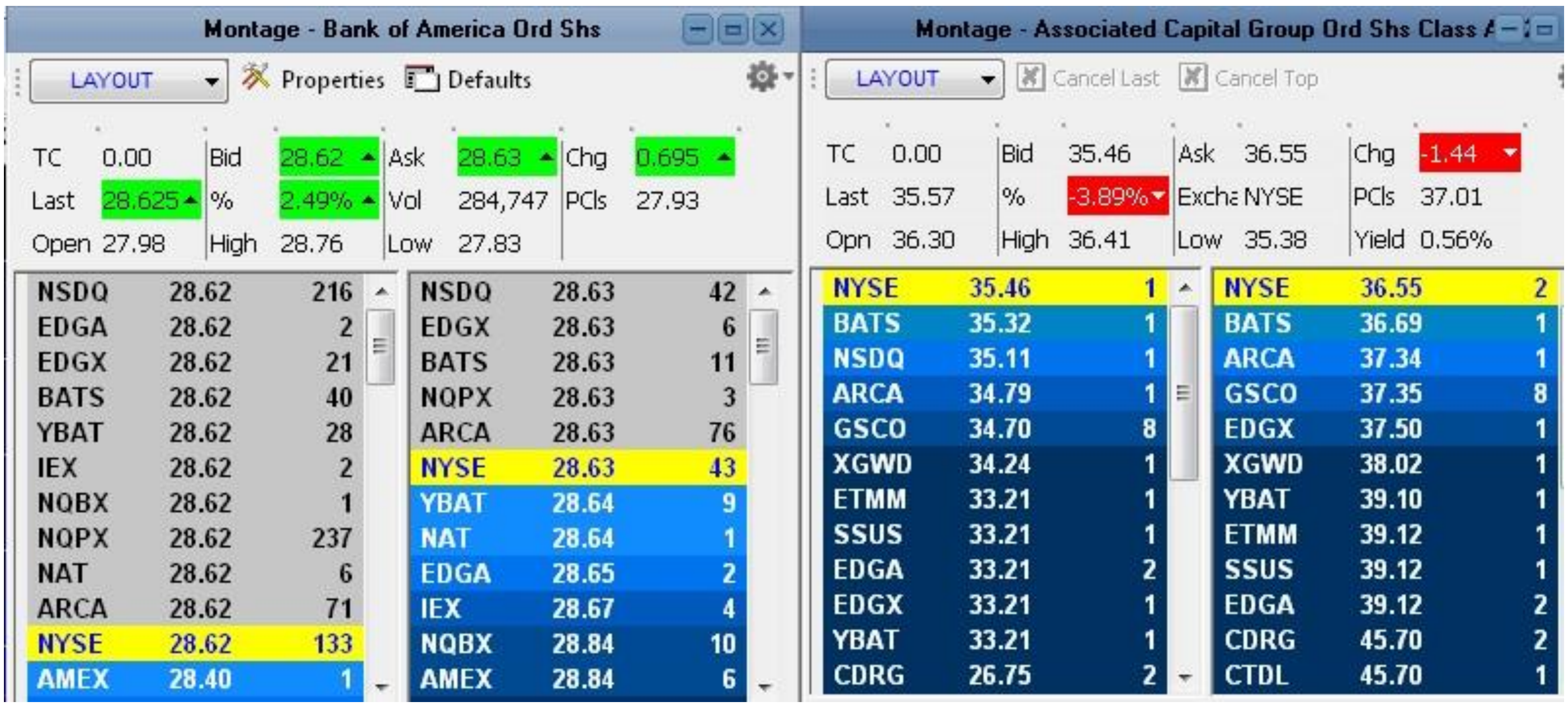
Tip #2 – Extend Trading Time Frame

- Scalping reserved for HFT only.
- Think in minutes or hours, not seconds and milliseconds



Tip #3- Trade Liquid Issues

If you’re paying the spread, better to trade stocks with tighter spreads.



Tip #4 – Don’t show your hand.

- Predatory programs that detect real orders.
- Order Sniffers.

Tip #5 – Ignore the HFT noise

- A stock is going to go where it wants to go.
- Ignore the HFT chop.

Principles For Long Term Investing

- Overall Market Trend
- Macro environment
- Valuations – Focus on Forward P/E.
- Buy good companies at reasonable valuations.
- Story is everything – in the short term valuation is meaningless. In the long term, it's everything!
- Technical Analysis – timing entries and exits.

Technical Analysis

- Taught in Five seconds:
  - Support
  - Resistance
  - Trends
  - Retracements (most relevant is 50%)

Support


Studies Display Chart Time Trend Lines Window
Sym: TSLA
All
29/04/25 Open 285.50 High 293.32
Last 292.03
400.00
349.98
300.00
250.00
SUPPORT
Feb
Mar
Apr
May
TSLA

Resistance


MSFT : (Weekly) Candlestick MICROSOFT CORP
Studies Display Chart Time Trend Lines Window
Sym: MSFT
All
16/05/25 Open 445.94 High 456.19 Last 454.27
RESISTANCE
454.27
450.00
400.00
350.00
Oct
24
Apr
Jul
Oct
25
Apr
MSFT

Old Resistance Becomes New Support

Trends

SPX · 1M · SP O5,625.14 H5,845.37 L5,578.64 C5,844.20 +275.13 (+4.94%)
$SPX.X, Monthly
USD
6,500.00
6,250.00
6,000.00
18d 0h
5,750.00
5,500.00
5,250.00
5,000.00
4,750.00
4,500.00
4,250.00
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3,750.00
3,500.00
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Retracements

Summary

- HFT has monopolized Top of Order Queue
- Adjust execution tactics for this HFT environment
- Extend time frame
- Trade liquid stocks
- Ignore HFT noise.
- Good companies at reasonable valuations.
- Technicals – to time your entries and exits.