Editorial

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I shall start my editorial with a famous quotation of Keynes's:

Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.¹

This wonderful quotation makes the point, *inter alia*, that current political ideas and theories are driven by past academic research. However, current market activity no longer seems to be following the theory of the last decade, or earlier, but actually running far in front of it. One example, highly relevant to both derivatives markets and hedge funds, is the rather broad bunch of activities described either as high frequency trading (HFT) or latency arbitrage.

Although we can make a distinction between HFT and latency arbitrage, I shall treat them within a single frame of reference, which I shall call HFT. Essentially, we are looking at a world where a great deal of financial activity is focused on speed of implementation. But when we come to look at academic research that might have motivated this, there is very little there. The revolution seems to have been driven much

more by developments in IT and computing than by any papers in finance or economics.

What is particularly curious is that there is a widespread belief that HFT is transferring wealth from institutional investors, and hence pension funds (and widows and orphans and honest savers), to three men in an office in Croydon. I am agnostic on this belief. It may be true, it may be false, but what is clear is that there is little to no published research that would allow one to form a clear view. The small amount of research that has appeared has mainly addressed the 'flash crash' of 6 May 2010, and a rather detailed report with access to a great deal of timed bids, offers and trades, failed to find any convincing evidence that HFT was to blame.

This practise is clearly front-running research and I hope to publish papers on HFT in the coming issues of *JDHF*. At the moment, we have none and welcome submissions on this extraordinarily interesting topic.

Stephen Satchell
Editor

REFERENCE

- 1 Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*, Chapter 24, New York, NY: Harcourt, Brace and Company, Polygraphic Company of America, p. 383.