

Cat-and-Mouse Game

A trader who has reason to believe that someone's on to his order has some recourse open to him.

He can always remove himself from the market. But he can also take action, said Tim Sargent, president and chief executive of Naperville, Ill.-based Quantitative Services Group, a transaction-cost research provider.

The trader can start by taking out the available resting liquidity in the marketplace bit by bit. "Maybe you buy up the book a little bit, and then you hide from the order flow," Sargent said.

Automated trading systems will see that initial spike in behavior and take it as a signal to acquire positions. As they do that, they'll soon notice that there's no subsequent follow-through. So, the automated systems will only hold the positions for a period of time before they reverse out of them, adding liquidity back to the marketplace, Sargent said.

"You have to use more tactical trading methods, more hands-on trading methods, oftentimes," he said. "It's something that probably doesn't lend itself easily to automation."