

High-Frequency Trading's Many Faces

All high-frequency trading firms aren't the same. They have different strategies, and therefore should not be painted with a broad brush.

Generally, there are three types of high-frequency traders. Some make markets. Some do arbitrage trades. And some make bets on the short-term direction of stocks. They don't always trade solely in equities. And they also use their own capital for their trades.

And high-frequency traders look for stocks that aren't priced at fair value at any given point in the trading day and push them in that direction, said Cameron Smith, general counsel at Quantlab Financial, a Houston-based quantitative trading shop that uses high-frequency trading strategies. To do that, they comb through oceans of data and consider as many relevant factors in the marketplace as they can to decide what the consensus fair value is at any given moment.