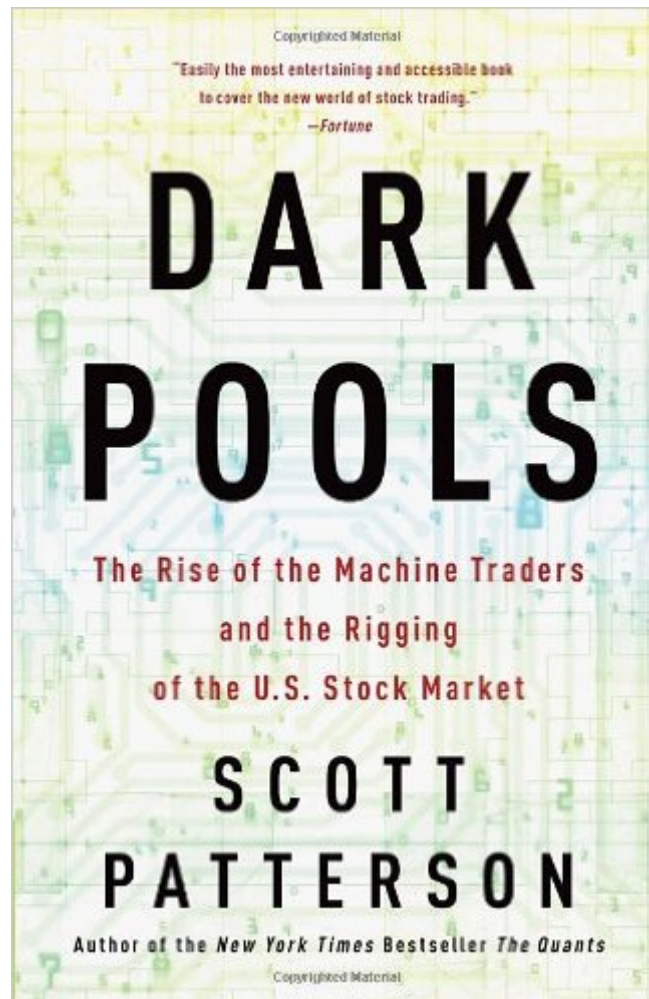


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# Dark Pools: The Rise Of The Machine Traders And The Rigging Of The U.S. Stock Market



## Synopsis

A news-breaking account of the global stock market's subterranean battles, *Dark Pools* portrays the rise of the "bots"- artificially intelligent systems that execute trades in milliseconds and use the cover of darkness to out-manuever the humans who've created them. In the beginning was Josh Levine, an idealistic programming genius who dreamed of wresting control of the market from the big exchanges that, again and again, gave the giant institutions an advantage over the little guy. Levine created a computerized trading hub named Island where small traders swapped stocks, and over time his invention morphed into a global electronic stock market that sent trillions in capital through a vast jungle of fiber-optic cables. By then, the market that Levine had sought to fix had turned upside down, birthing secretive exchanges called dark pools and a new species of trading machines that could think, and that seemed, ominously, to be slipping the control of their human masters. *Dark Pools* is the fascinating story of how global markets have been hijacked by trading robots--many so self-directed that humans can't predict what they'll do next.

## Book Information

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## Customer Reviews

This book does 2 things: (1) goes through the historical events that led to our modern stock market and (2) tries to explain what is going on in market microstructure. The book does very well on (1) -- it's really an enjoyable book to read. But on (2) there's almost no information, no analytic discussion about microstructure, and some of the comparisons and conclusions are simply wrong. For example, the Patterson compares the immediate liquidity with the days of the past comparing the top of the book orders and noticing that today you have fewer orders at the top of the book. But this

is misleading. In the past when the spread was at least 25 cents (due to regulation, ie, in increments on 1/8ths, but also in part of the gentleman's agreement between specialists to keep the spreads large) and now the spread is mostly 1 cent for most stocks. To compare apples to apples you need to sum up the liquidity on 25 levels in the current market, because basically these 25 levels would have been aggregated into 1 level in the past. Once you do this comparison, it's clear that the order book today has much more immediate liquidity. In spite of the title, another thing that's missing in the book is a discussion of dark pools. Obviously, there's a much bigger problem with dark pools today than with the lit market, mainly because the dark pools can legally do prop trading (and they do) on the flow they see, but in the same time they are marketing a hidden market. This is simply wrong and should have been discussed. The author points out that the market is unfair, in the sense knowledge of market micro-structure gives some players an advantage. But the market was never fair.

As an insider in the world of electronic trading, I thought Scott Patterson did a great job in turning a highly complex subject into an easy-to-read and compelling narrative. As investor confidence continues to wane, it will further fuel the already heated discussion on the fairness of the market for every day investors. He didn't hit all the major conflicts that are present in the electronic trading industry, but those will hopefully make for a good sequel to his book. After reading thousands of pieces on the topic of market structure, this book stands out among the very best. Most literature on the subject falls into the trap of being too academic (and falling short of explaining the true nuances of market structure) or too biased (from both the HFT and anti-HFT camps). In anticipation of those who will be critical of the author for missing some key pieces of information or misrepresenting a particular subject, readers need to realize that this is an industry that is shrouded in intense secrecy. Those who have intimate knowledge of this subject are rarely willing to talk about it, and many firms go to great lengths to protect their secrets and immense profits. As a "non-insider," it is impressive how the author was able to link together pieces of the puzzle, and thorough research was evident in his writings. To take a quote from the author's previous book, *The Quants*: "The market was like a coin with a small flaw that makes it slightly more likely to come up heads than tails (or tails than heads). Out of a hundred flips, it was likely to come up heads fifty-two times, rather than fifty. The key to success was discovering those hidden flaws, as many as possible."

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