

Discussion: Adaptive Trading and Longevity

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Objectives

- Idea: Markets are dynamic; traders must adapt to succeed.
- Notes adaptability is continual learning *and* unlearning.
- Many studies of adaptability have been done in a lab.
- Uses financial markets as a natural laboratory.
- Novel dataset: 6.5 years of broker's DMA client trades.
- Paper measures adaptation as variance of trading behavior.
- Shows variable trading behavior relates to longevity.
 - Variance of behavior subsumes predictive power of returns.

Minor Changes

- Footnote 3: NYSE trading decentralized over period of data.
- Should mention size of dataset before filtering.
- Stock, time, venue concentration measures: almost χ^2 .
 - Would yield better distributional tests for comparisons.
- Should correct time measures for average volume diurnal.
- Is relationship of adaptability and performance linear?
 - Can imagine a concave relationship with a “sweet spot.”
 - At extremes, traders under- or over-adapt (flail).¹
 - Should test for this with variability² terms.
- Changing trade sizes \Rightarrow changing capital?
 - Control for that with linear trend of trade size?
- Equation on page 14: not sure what it means; put in table.

¹Gervais and Odean (2001) also suggests this possibility.

Bigger Issues/Questions

- PC1 = adaptive trading index. What is PC1? Constant over time?
- Need much more discussion of fitted hazard rate model.
- Location correlated w/trader behavior but not position exit?
- Is # of stocks traded a measure of risk-aversion *and* wealth?
- Intraday marking at NBBO is noisy, not realized performance.
- Imagine all traders hold until profit. (Dead get filtered.)
 - Would also find trader performance unrelated to longevity.
- Should also look at position exit; may be an adaptive choice.
- Seems you characterize which traders remain active, not *why*.

Selling/Relevance

- More adaptable traders may be better at navigating crises.
 - May even be less likely to incur large losses.
- Further stress difference of adaptability and learning.
 - That way I am reminded of what is new in the work.
- Your results are stronger than they seem from the abstract.
 - Note results are after controlling for X, Y, Z .
 - Trading portfolios 1 std dev more concentrated (??)...
 - ...or across 1 standard deviation more venues...
 - ...increases longevity by 25% or 40%.
- Longer-lived traders perform better? Have lower trade costs?
 - Figure 2 seems to imply some of these.
 - Do adaptable traders better manage client funds?
 - How much could hiring better traders save clients?

Conclusion

- Interesting study of benefits of trader adaptability.
 - Shows adaptability is generally related to longevity.
 - Results seem a bit undersold; more here than apparent.
- Paper studies adaptability via financial markets: novel.
- Stress more of possible benefits of adaptable traders.
- Lots of interesting results here; need to highlight them.
 - Don't be married to idea of adaptive trading index (PC1).