Trading on the News

By Maureen Nevin Duffy

Who has the best coverage of economic news: the media company with the most bureaus around the world or largest and most experienced reporting staffs, or the one with the most data feeds and powerful technology for tagging market and corporate data for financial transactions and analysis?

If news can be reduced to a commodity--combed and delivered as fast as data--how important is the quality of the content? These are questions traders are beginning to consider as they evaluate their financial news suppliers and how these feeds interact with their low-touch platforms.

The answers are important for the ever-more automated trading function as news suppliers are employing technologies similar to those found in event processing systems to create machine-readable information that can help fuel algorithmic strategies. Dow Jones & Co. and Reuters Group have introduced such products, and Thomson Financial plans to roll out a formal offering in the near future.

Dow Jones Elementized News Feed, introduced in March, is the company's second high-speed data product for the quantitative and algorithmic market, following the April 2006 launch of Dow Jones News and Archives for Algorithmic Applications. Reuters in December introduced NewsScope Real-time expressly to feed news items into automated trading systems.

For now, none of the three major vendors plan to aggregate news other than their own. All say that tagging news items with quantitative detail, based on number-related events, is the easy part. The systems can pick up changes in economic data such as the consumer price index or employment figures. How the algorithm interprets the tagged data can be set by the trader or analyst.

At a higher level of machine intelligence, more-qualitative, non-number-related news is still being worked on. At the moment, Dow Jones is not "elementizing things like Hurricane Katrina," said Robert Prinsky, executive director and senior editor for institutional product development at Dow Jones Newswires. While qualitative, or sentiment, tagging is not a straightforward function, "it is on our agenda to get to that," he observed.

If a headline reads "Chairman Resigns," several questions automatically arise, explained Prinsky. "Was it under pressure? Was it a surprise or expected? Does he retire? Is that good? It may depend on who's replacing him." Another example of complexity: If the Food and Drug Administration clears a new drug, it may be negative for the companies that sell competing medications. "We're dealing with the easier things first," said Prinsky.

Beyond Key Words

The ability to scan for key words has existed for some time, noted Brad Bailey, senior research analyst with Boston-based research firm Aite Group. The event processing platforms that help drive algo trading grew out of academic research to harvest events and correlate them. But the machine-readable news systems grab news events at the same speed as market-data systems read market prices. They then put the news stories through an algorithm that feeds a trade execution system. Trade decisions are made based upon rules that have been programmed into the system. The systems can also detect patterns and recognize non-events, Bailey said.

Dow Jones has been working with customers who have been willing to experiment with the product's first phase. If these beta users want to actually perform trades, they have to purchase the product, said Prinsky, and some have begun to do so. The company is planning to launch feeds for corporate earnings and guidance information. Later this year, Dow Jones plans to add a feature that reacts to merger news.

Promoting NewsScope, Reuters has emphasized its grasp on global news, with 2,400 reporters and editors in 196 bureaus in more than 131 countries. The company claims, having filed more than 2.5 million news items in 2006, to be the world's largest international multimedia news agency. "It's difficult to look at one geographic area in isolation," said Kirsti Suutari, global business manager in Reuters' algorithmic trading enterprise business division. "When issues are listed in multiple markets, clients really need news input from all of those markets."

Suutari cited the late February sell-off in China that sparked a market rout that spread to the U.S. as a recent example. "U.S. markets moved on it with significant results," she said. "If it wasn't for the news, people would look at the U.S. and not be able to figure out what was going on here. As we know now, it was the China syndrome.' The machine needs to know this too."

Reuters is also touting its global stock symbol system as a competitive edge. The same issue traded on multiple exchanges may carry different identifiers. Reuters assigns its own RIC (Reuters Instrument Code) to ensure that the information on that company is consistent across markets. "You'll know which exchange you're getting the information from," said Suutari. "And the news story will have that RIC imbedded, so all information products including the news service will key off the same symbol."

Reuters sees the NewsScope user base in two parts--those who want to manage risk and those who will employ it to make money.

Matthew Burkley, president of enterprise solutions at Thomson Financial, said the company's databases will set its product apart. As one of world's biggest owners of database patents, Thomson is able to pull market data from 150 exchanges, said Burkley. This adds to its product's depth. The company plans to integrate the machine-readable news product with its earnings estimates and analyst reports. "Our system can show how many analysts are above or below the mean," with the same speed as the market price data is delivered, "but with this unique data combined into the feed," said Burkley.

As the millisecond-level delivery of machine-readable news becomes commoditized, Burkley said news suppliers will look to distinguish themselves by the uniqueness of their content: "It'll be a combination of how many reporters we have and how well the service can leverage the technology. How well do we leverage technology and proprietary databases to make stories faster and richer?"

As news feeds incorporate a growing number of variables, in the same fashion as market-data dependent algorithms, the algorithms that react to the news will improve. "What moves markets is often news," said Burkley. "Perhaps an oil company stock is trending downward, and an algorithm says you should be selling the stock. But the news story says the price of oil is skyrocketing. So putting news into the algorithm is an important predictor of what markets are going to do."

But, Burkley said, it's not just the speed of the algorithm, but its ability to draw on multiple sources of information to make an informed trading decision. Thomson plans to promote its machine-readable offering with other products, such as its Fast Tick quote feed. To help clients compare the competing offerings in speed and other features, "We're working with customers to establish benchmarks," said Burkley.

A fast, young trader takes about a half second to read a headline and make a trading decision, said Bailey. The industry has the technological capability to do this in milliseconds. "Assigning value to this data is event processing's greatest initial focus," Bailey added.

But isn't there a temptation for clients to want to tag everything? "Of course," agreed Reuters' Suutari, who used the term "infobesity." The idea is to harvest what is significant to you, but they probably will be pulling too much at first. But, said Suutari, the vendor's role is to support "fast quantitative analysis and algorithm trading. Users need to be particular. When more becomes too much, they will be able to choose just the bits and pieces they need."

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