High-Frequency Traders Fairness Law and Efficiency
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Since we have had markets, traders have developed methods to use publicly available information to trade ahead of others. During the first part of the 20th-century traders paid to have ticker machines installed to find out about trades before others. During the 1970s traders paid for open phone lines between the floors of the New York and Chicago stock exchanges to trade on market moving information ahead of others. No one thought these earlier practices were insider trading.

Regarding co-location: As trades occur, all servers in the room get fed the results of that trade simultaneously. This too is nothing new or sinister. Until it went public, NYSE seat prices were in the millions of dollars. Traders paid those prices to be at the place where trades occurred so they could react before traders off the exchange could. Co-location has been around a long time.

What HFTs provide is a source of liquidity. They have replaced specialist and market makers as liquidity providers. Computers operate faster than human market makers and don't receive salaries, pensions or health benefits. Their marginal cost is near zero. This allows HFTs to be able to make money by earning on average 10 cents a trade. Humans couldn't be employed in a business model that identifies trades with a mere 10-cent profit. HFTs are to security markets what Amazon.com is to the retail book industry. While there may be some illegal activity going on in some HFT firms, the vast majority simply provide a service that was previously delivered manually—and do it cheaper and faster.

There are very important issues that need to be addressed in security markets today: How to best assist small firms in going public, the negative impact of the increasing amount of internalization in markets and how best to compensate liquidity providers are three. The importance of current investigations into HFT practices pales in comparison to these issues.

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