

Tracking the Whip Effect

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CHATHAM, N.J. (HedgeWorld.com)—The prices of some stocks are moving around so much thanks to sophisticated trading systems that a new set of statistics can be applied, according to updated data from **Themis Trading LLC**.

According to Joseph Saluzzi, a partner at Themis, the use of algorithmic trading systems that in some cases automatically dice large block orders systematically means that managers may end up overpaying for certain stocks and executing trades at inopportune price points, as the computer programs unintentionally cause price "whips."

Mr. Saluzzi's firm is now offering more detailed reports on the "whip effect" and introducing a new yardstick called the Intraday Whip Ratio. The ratio compares a stock's average daily price volatility for the month to its average change in closing price per day for the period.

In its inaugural report in October, Themis reported that stocks such as Amazon.com, Adobe Systems and Apple Computer Inc. were each subject to price swings due to computerized trading models.

Whip stocks aren't confined to the technology sector though, with companies such as Starbucks and Staples also showing signs of algorithmic trading activity that Themis officials say drives the average daily price volatility to high as 2.58% of the average daily closing price.

For users of Themis' newly developed intra-day volatility whip ratio, that translates to a figure of 8.1, which is much higher than the ratio associated with the Nasdaq-100 Trust, which holds the top 100 non-financial securities by market cap. That stock group's had average daily intraday price volatility of 0.98% last month, with an intra-day volatility ratio of 3.6, Themis reported.

The five new top whip stocks named in November were: Staples Inc., Gilead Sciences Inc., Yahoo! Inc., Starbucks Corp., and Xilinx Inc. They each had daily volumes of at least 4.9 million shares and an average daily trade size of 300 shares. Staples topped the list with a whip ratio of 24.3.

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