Dave Cummings

Summary of Views

Forty-seven days after the flash crash, the market is still broken. Dave Cummings summarizes his views as follows:

1. **Public confidence is destroyed by broken trades and trades at unreasonable prices**. The events of May 6^{th} should not be allowed to recur. The recent rule changes do not go far enough.
2. **Exchanges must implement limits on a per stock basis.** For instance, an exchange could define "limit down" as the low of the previous 5 minutes minus 10%. Offers priced lower would be rejected. The low limit would reset at the top of each 5 minute window. In the last 5 minutes, the limits would reset at the top of each 1 minute. Exchanges would similarly define "limit up" as 10% above the previous high.
3. **Prevent trades outside the limits.** Broken trades are unacceptable. Broken trades cause bad market data. Broken trades set off even more stops. Forty-dollar stocks trading down to a penny, even if they are later broken, cause justified public outrage.
4. **Limits have been used successfully for years in the futures markets**. There were zero broken trades on the CME on May 6^{th}. Limits are preferable to trading halts. Many times, trading bounces off limit and resumes as normal. Coordinating halts and reopenings in hundreds of individual stocks will be a nightmare. Why should the world depend on a single guy under a buttonwood tree to reopen the market?
5. **Competition makes good markets.** The playing field should be level for all participants. Millions of investors employ thousands of different trading styles, and that is a good thing. Trading models are complex and do not fit simple categories. Bottom line: Whether their timeframe is milliseconds or decades, all investors are just trying to make money. Attempts to classify some trading styles as "desirable" or "undesirable" are unproductive.

Exchanges must implement limits as soon as possible. The public should demand immediate action.