

TRADEREX - SOLITAIRE SIMULATIONS

Run 1 – Order Driven

Introducing TraderEx order book market and how to use the software

- Instruction A: Accumulate a position of +100 by midday
- Instruction B: Accumulate a position of +300 by the end of the day

. Use Seed 1

Did you outperform VWAP? Is there a positive P&L? Why or why not?

Part 2 - Extension: Knowing what they know of the price path from Seed 1, go short 100, and then short 300

Did you do better in Part 1 or 2? Why?

Run 2 – Order Driven

Further practice with the software – Assign one of three different instructions to each participant:

- Instruction A: Accumulate a position of +450 by the end of the day (no selling)
- Instruction B: accumulate a position of –450 by the end of the day (no buying)
- Instruction C: go long 300 and then close out, or go short 300 and buy back (participants' choice)

. Use Seed 2

Post-trade analysis: Participants to graphically analyse individual performance vs. the market - some can be asked to present their results

Run 3 – Dealer structure

Introduce TraderEx Dealer market and how to use the software: review bid and ask, inventory, and need to control risk and position through quote changes or laying off. After practicing, restart and give:

- Instruction A: Adjust your bid-ask quotes to accumulate a position of +250, then making the low offer and staying below the best bid revert to a 0 or small negative position by 12 noon
- Instruction B: Adjust your bid-ask quotes to accumulate a position of –250, then making the high bid and staying above the best offer revert to a 0 or small positive position by 12 noon

Use Seed 3, 4, or 5

Among the A Group, how many have a positive Realized P&L? What proportion then have a profit? Among the B group? Why were more dealers profitable in Group __ (A or B)?

Advanced stand-alone exercises - in case of network simulation problems

Run 4 – Order Driven (or Order Drive + Call Auction or + Dark Pool)

- Go long or short X units. Each participant chooses the direction they want to follow no later than the fifth trade. Then participants' return positions to 0, then go to X/2 position in the opposite direction. (e.g., X=500)
1. *Who has a positive Realized P&L among Long-Then Short group? What proportion have a profit? Among the Short-Then Long group?*
 2. *Which group did the price path favor? Among those in the group, what is your current realized and unrealized P&L?*
 3. *What led to more profitable outcomes in Group __ (L/S or S/L)?*

Run 5 – Dealer

- Trade as a market maker with a position limit of Y units (e.g., 800). You should not go beyond that position.
- You should close your position to within +/-200 at the end of day
- Set Order Arrival Rate to 1.0 (or so, default is every 4.0 minutes)
- Have them click on >> or >>> to create time pressure.
- Performance will be assessed by P&L, risk/average position kept low, and high market share (greater than one-sixth, 17% average among six dealers)

Who has a positive Realized P&L? What proportion of participant have a profit?

You can enter the participants' result into a spreadsheet with them calling the numbers out to you, and five+ column headings: Realized P&L, Unrealized P&L, Closing Position, Average Position, and My Order Vol (% of market)

What led to more profitable outcomes? (large risk/average positions?, high market share?)

Who has done best? (Is a P&L of 80 and an average position of 400 better than a P&L of 90 and an average position of 750?)