



The European Journal of Finance >

Volume 13, 2007 - [Issue 8](#)

512 | 41

Views | CrossRef citations to date | 6

Altmetric

Original Articles

# Algorithmic Trading Patterns in Xetra Orders

Johannes Prix, Otto Loistl & Michael Huetl

Pages 717-739 | Published online: 27 Nov 2007

🗨️ Cite this article   🔗 <https://doi.org/10.1080/13518470701705538>

Sample our  
Economics, Finance,  
Business & Industry Journals  
>> **Sign in here** to start your access  
to the latest two volumes for 14 days



📄 Full Article

🖼️ Figures & data

📖 References

🗨️ Citations

📊 Metrics

📄 Reprints & Permissions

Read this article

🔗 Share

## Abstract

Computerized trading controlled by algorithms – “Algorithmic Trading” – has become a fashionable term in investment banking. We investigate a set of Xetra order data to find traces of algorithmic trading by studying the lifetimes of cancelled orders. Even though it is widely agreed that an algorithm must randomize its order activities to avoid exploitation by other traders, we still find systematic patterns in the submission and cancellation of certain Xetra orders, indicating the activity of algorithmic trading. The trading patterns observed might be interpreted as fishing for profitable roundtrips.

Keywords:

Market microstructure

algorithmic trading

cancellations

order lifetime

Xetra

# Acknowledgements

We are grateful to Deutsche Börse AG for generously providing this order dataset. We thank Peter Gomber and participants of the 2007 Campus for Finance – Research Conference, (Vallendar, Germany), the Scottish Economic Society Annual Conference, (Perth, UK), and the 40th Euro Working Group on Financial Modelling meeting (Rotterdam, Netherlands) as well as participants of the 2007 Market Microstructure Seminar hosted at Deutsche Börse AG for valuable comments and suggestions. We are thankful to U. Schweickert from Deutsche Börse AG for their fruitful discussion on Xetra system internals.

---

# Notes

1. The time span from the moment an order is generated in the electronic system of an exchange member to the time when a confirmation signal from the exchange arrives back at the order submitter is called roundtrip time.
2. In our dataset containing all order entries of all DAX-30 stocks between 8 and 15 December 2004 and between 5 and 12 January 2005, such a volatility break occurred only twice.
3. For a treatment of cancellations with lifetime lesser or equal two seconds, see Hasbrouck and Saar [\(2005\)](#).
4. Intuitively, kernel density estimates can be understood as histograms with infinitely fine classes smoothed by moving averages. Formally, kernel density estimates are functions of the form

where  $K$  is the kernel function. For all plots in this paper, Gaussian kernels were used, i.e., all kernel density plots use the formula

For an extensive comparison of the properties of different kernels see Hwang et al. [\(1994\)](#).

---

People also read

Recommended articles

Cited by  
41

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up

