Modern Financial Markets and Data Intensive Science: Leveraging 35 Years of Federal Research

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Mission: Solve the most pressing and profound scientific problems facing humankind

- Basic science for a secure energy future
- Understand living systems to improve the environment and energy supply
- Understand matter and energy in the universe

16 Nobel Prizes, 2 Elements (Lawrencium & Berkelium)

Pioneer and Center of Excellence in Data Intensive Science

FY10 Total Operating Costs: $680.6M

People
- 3,863 FTE
- 3,040 Employees
- 267 Joint faculty
- 491 Postdoctoral researchers
- 328 Graduate students
- 194 Undergraduates
- 8,025 Facility users
- 1,612 Visiting scientists and engineers

Berkeley Lab’s largest research facilities see more than 25,000 users per year.”
High Frequency Trading: Markets Become Data Intensive

Pervasive in stocks
- Growing in scope & across markets

Race to the bottom in latency
- Race to the top in message traffic
- Market “traffic jams” can happen

Major flavors
- Market making – liquidity provision
- Arbitrage & Short-term prediction

Contrast to slower buy-side algos
- Source of increasingly nervous buy-side & individual investors

Creates a “Big Data” Problem

Aldridge: [http://amzn.to/rRCz1P](http://amzn.to/rRCz1P)
Durbin: [http://amzn.to/rBHWlC](http://amzn.to/rBHWlC)
“Big Data” and Federal Regulation of Financial Markets

IT woes are identified as a critical problem by CFTC, SEC

- Overwhelmed by “100 Gigabytes a day”
- Growing fast

Supercomputing & Data Intensive Science routinely deal with flows and volumes *hundreds of thousands times larger*

Leverage for successful modern market surveillance at reduced cost and risk

Early HFT Research
Flash in the market and a Flash in the sky

Imagine, for the sake of comparison:

• Flash in the sky, (not the stock market), that you wanted to understand, and look at in other ways using other telescopes, satellites, and histories (not futures or options or multi-venues).

Once, doing this was the same messy tangle of incompatible scattered data we see in markets.

Now, a giant unified “Digital Eye in the Sky”

Nice coincidence:

• Used as Flash Crash Metaphor: April 2011
• Supercomputer discovers actual supernova in “real-time” : August 2011

Data Intensive Science Success Stories

- Supernovas in real time
- Revolution in Earth Observation
- Two Nobel Prizes in Five Years based on data intensive research

- **Hardware, Software & Expertise**

Major US DOE Lab Resources
For Data Intensive Methods in Markets

Investment of >$30B since the 70s

Components:
- Supercomputers
  - Now in all sizes
- Large scale data tools:
  - Analysis & Visualization
  - Simulation & Experiment
- Expertise and Experience

Hopper (NERSC-6): Cray XE6 at Berkeley Lab
- 153,216 cores
- 212 Terabytes main memory
- 2000 Terabytes disk
- 2nd Fastest computer in US
- ~$5 Million/year electric bill!
Berkeley Lab NERSC Data Intensive Science: Two Physics Nobel Prizes in 5 Years

George Smoot, 2006

Saul Perlmutter, 2011

Cosmic Background Radiation

Accelerating Expansion of the Universe
20 Key Questions for Markets
A “Jim Gray” starter list

Systemic Structural Risk
• Are complex interactions between market centers a source of risk due to unanticipated interactions when they are operating as designed?

Systemic Implementation Risk
• Same question as above, but recognizing that markets are built on real computers, with delays, crashes, races, queues, slow-downs…

Enforcement
• Can you spot a market manipulator who works in microseconds?

Financial Cyber-security
• The worst calls the heads of the SEC/OFR/CFTC could get is “Are our markets under attack?”
• If that happened, test probes would certainly precede it. Would we know?

Policy Analysis
• Can we simulate, analyze, model and visualize what would happen if we make changes in the rules? Avoid unintended consequences..
Data Intensive Science Financial Prototypes at Berkeley Lab

- Replicate portions of Flash Crash Analysis
- Extend to test improved early warning “Soft Circuit Breaker Methods”
- Cooperation with agencies and market participants

Post 'flash crash' monitoring emerges at Berkeley

Why Real-time Makes Sense:
*NTSB Approach: Ex Post Analysis*
Why Real-time Makes Sense: 
FAA - Real-time safety and stability
Why Real-time Makes Sense

Two challenging yet soluble problems in HPC and Data-Intensive Science

**NTSB Data:**
Ex Post Analysis

**FAA Monitoring:**
Real-time safety and stability
Specific Technologies from Data Intensive Science and their Application to Financial Market Analysis/Understanding
Regardless of “final definition” of HFT, studying it and its impact on markets is a “big data problem”

Two potential study scenarios:

- **Historical**: look at past data to find, study patterns, pose and test hypotheses
- **Real-time**: look at market data as it happens – want to find events, then make/execute policy decisions based upon events
Science Familiar with Big Data Problems: 
*Data Sources and Data Movement*

- **Supercomputer centers**: for computational modeling, “virtual experiments.”
  
  *Multi-petabyte data challenges*

- **Experimental facilities**: particle accelerators, particle detectors, x-ray/laser light sources, etc.
  
  *Multi-petabyte data challenges*

- **Networks**: high-speed, low-latency production networks that connect scientists worldwide to these facilities
  - DOE’s Energy Sciences Network (ESnet):
    - Petabyte per month load now
    - 100 petabytes/month by 2015
Science Familiar with Big Data Problems: Analysis, Knowledge Discovery

- Significant R&D investment on tools, techniques for analyzing and understanding ever-growing scientific data
- R&D on monitoring, analysis of world’s largest production scientific network
- Many of these same tools, technologies, and expertise can be brought to bear on data-intensive challenges of financial markets

Two forensic cybersecurity examples follow
Berkeley Lab Competency: High Performance, Real-time Network Traffic Analysis and Policy Enforcement

The **Bro Intrusion Detection System:**

- **Detect events:** packet-level analysis engine uses signature matching to detect events, generates a trigger
- **Policy enforcement:** given event triggers, make decisions about what to do

**Faster networks require faster processing**

- Scaling Bro-IDS: the “Bro Cluster” – required for processing traffic loads on 10Gbps links, in use now

**Many conceptual similarities to real-time financial market analysis**
Berkeley Lab Competency: Accelerating Inspection, Analysis of Historical Network Data

• Use supercomputers to discover **distributed** “bot-net” attack on US government centers

• Source data: 1 years’ worth of ‘connection records,’ ¼ terabyte in size

• **Processing time:**
  - **Minutes:** with supercomputers and related lab software technologies
  - **Months:** using traditional, “widely accepted” practices

• **How?** Parallel computing, data models/formats, index/query for fast subset selection and analysis
Real-time analysis: scalable infrastructure for processing vast amounts of streaming data

• Look for “events” to enable execution/enforcement of policy
• Testbed for trying out new ideas, hypotheses

Historical: Scalable technologies for data indexing, searching

Related HPC technologies: I/O formats, data models, large scale computational modeling, advanced visual data analysis and exploration

Plenty of experience applying these technologies to diverse science problems: astronomy, astrophysics, climate modeling, combustion, fusion, high energy physics, …..
Federal Market Monitoring Lessons

Financial markets are big data, **big fast data**

- Bring the best technology to bear on the problem
- Nice that it already exists in Fed World

Real-time makes sense

- Don’t apply rules of the road to aircraft

**Stability, Safety, Security**
For more information and slides with links

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