Out of the Pits

Traders and Technology from Chicago to London *Out of the Pits: Traders and Technology from Chicago to London* by Caitlin Zaloom, published by the University of Chicago Press. ©2006 by The University of Chicago.

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In 2000, the London International Financial Futures and Options Exchange (LIFFE) evacuated their trading floors under the competitive pressures of the German-Swiss exchange and online technologies. (...) All that is left of the LIFFE floor traders is the bronze cast of a man on the corner of Walbrook and Cannon Streets. The figure poses, legs widely planted, (...) head angled toward an outsized cell phone. His loose trading jacket is permanently spread in the wind that streams through the glass and stone funnel of the City’s streets. The statue was erected in 1997 to mark the fifteenth anniversary of the London financial futures markets. Just three years later the pits were gone. The metal statue gives material form to the transition from open-outcry to electronic trading in the City of London (...)At the same time that the LIFFE trading pits were closing, dealing rooms at large banks were replacing the barrow boys with more educated employees. The original barrow boys were associated with currency and futures dealing, markets that used fairly simple trading techniques. As financial instruments got increasingly more complicated, with swaps and options becoming more widespread, banks recruited university graduates to deal in these complex markets. (...) In contrast, electronic futures markets link traders in a neatly networked web of dealing rooms, in which market transactions are played out not in shouts and frenetic hand gestures but through (...) constantly changing numbers on a graphic user interface.(...) They looked for recruits who worked with aplomb under pressure, were “dogged,” ambitious, and had decent math skills. The managers preferred their recruits to be single. They observed that trading was a more difficult and stressful task when a family’s budget was on the line.(...) The (...) managers were also looking for risk-takers. (...)But the (...) trainers understood that deep knowledge of the financial products was not necessary to trade successfully.(...) So the (...) trainers focused on producing speculators, not experts in government debt products. (...) They did not insist on technical mastery of the internal workings of financial instruments or their theoretical bases.(...) The curriculum quickly moved beyond that to explain the two techniques that most of us would use to trade in our own accounts: scalping and spreading. Both techniques focus on the profits to be made in the daily fluctuation of futures markets. Scalping focuses on the price movements in a single contract. The scalper buys contracts that he expects to rise in price, or at least he anticipates being able to make money (...) Spreading takes advantage of the difference in volatility between bonds of different durations. (...) The price of a ten-year bond is more volatile than that of a two-year bond because the longer time frame presents more opportunities for changing economic conditions and involves greater uncertainties. A spreader takes opposite positions in each of two instruments, using the more stable contract to limit the loss potential of a position in the more volatile product. These techniques take no more than a day or two to master conceptually (...) These programs taught the group some fundamental lessons about the gamelike character of trading and the intense focus necessary, as well as sharpening our hand-eye coordination.(...) The left button allows the trader to join the (...) offer. The right button, the danger button,(...) buys the offer, establishing a position opposite to the one the trader intended.
1) **Title**: Find the image of a pit:
2) **Global comprehension**: In order to sum-up the text, put these sentences in the right order.

- They were expected to work as if they were playing video games - the recruits were supposed to enjoy taking risks
- The bronze statue of a trader was erected in the City at the beginning of the XXIst century
- Many of the new traders did not understand finance very deeply
- At the time, the transition from outcry markets to online stock exchange in London was under way
- This required a skilled workforce, which was not always the case before.
3) **Specialized vocabulary** : what is the right definition for :

**Financial future** :
- A contract gives the buyer the right to pay today's price for a specific asset to be delivered at some point in the future. The changing prices of a financial future contract reflect the perception that investors have of what may happen to the market value of the financial product.
- The future of financial markets over the world according to London specialists
- A contract between a University graduate and his future employer, who will train him or her in order to become a qualified trader and allow him/her to make a successful career in the financial world.

**Open outcry**
- You say that a trader is in open outcry when he made a mistake and lost so much money that he could break in tears in public.
- Open outcry is a method of trading on a commodity exchange or an auction market, that involves shouting and making codified gestures on the trading floor.
- It’s a ceremony which takes place every morning at commodities exchanges, where a butler cries out to each trader, shouting his name in an intelligible voice. Then, he opens the door and they are allowed to enter the trading floor.

**Dealing room** :
- A place where stressed traders buy and consume cocaine discreetly
- A synonym for front-office : the place where traders work, surrounded by computer screens
- The lobby where clients queue, waiting for an employee to be available

**Barrow boys**:
- Originally barrow boys sold fruit and vegetables in the streets. On financial markets, the so-called barrow boys were people who could trade without a very high level of education
- Barrow boys were young traders born at Barrow Hospital, on Cannon Street, in the City. This is why a statue was erected there.
- Barrow boys were traders who were called so because they were extremely original

**Swaps**:
- Swaps is short for South-West African People Savings
- A swap is a cheap sample of a more complicated financial instrument, such as government debt products. Swaps are only traded by barrow-boys.
- A swap is a contract in which counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument : for example hoping to take advantage of a gap between a fixed interest rate and a floating interest rate.

**Scalping**:
- Scalping is a technique based on very long-term fluctuations of prices
- Scalping is buying at high prices and selling when they become lower
- The trader buys for a very short period of time and sells for a small gain

**Spreading**:
- The trader plays on long-term contracts (subject to many price fluctuations) and short-term contracts (less volatile), which have different interest rates. He makes money by selling one and at the same time buying the other.
- Spreading is selling a two-year bond for the price of a ten-year bond
- Spreading is selling a ten-year bond for the price of a two-year bond

4) **Comment on the text** :
- Do you find anything surprising in this text? Why?
- Caitlin Zaloom wrote her book, an excerpt of which you’ve just read, after having worked for several years on trading floors. Do you think it is a good way of doing research? Why?