

Market structure evolution

by Global Intel Hub (JoeGelet), 2015

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The markets have evolved over time to bring us to where we are now (as if anyone knows where that is!). How markets evolve is largely misunderstood by the general investing public, certainly by the regulators, and the general populace thinks the markets are nothing more than a high brow elitist conspiracy to strip their assets and take their rights.

And to a large degree, this is true. Markets have become so fast moving, so computerized, we often lose focus of what the markets really do – what our market based system does and is supposed to do.

Let's take politics for example – there are those who think US democracy has been 'bought' by the 'deep state' and doesn't exist anymore, since the 2000 elections and advent of electronic voting machines, is real democracy possible anymore? Of course it is – and always was. But the lie the establishment feeds the populace, as always – is 95% truth.

It's the 5% that is the real game changer, like discovering a new physics that explains the 95% of dark matter in the universe. The 5% truth the public is missing – it is 'one dollar, one vote' – not 'one person, one vote.' Remember, the 'founding fathers' of America were a bunch of slave owning Freemasons that wrote 'all men are created equal' (excluding of course, women, blacks, the indigent, foreigners, American Indians, and any other group that was not a white land owner).

Yes, of course – America was the beacon of light and free trade compared to the darkness that existed in Europe at the time – just bring these facts to bear!

How market structure evolves

The market really is chaos. The only real solid financial structure created in the last 500 years is a central bank and how money is created. But introduce Forex, and that structure goes right out the window! Market structure evolves by simple capital trial and error; sometimes at the great detriment to the investors. Imagine for a moment – the investor doesn't own the securities, the capital does. Imagine that capital itself is a virus, an organism by itself, that is actually manipulating humans to buy and sell stocks; to make investments (for better or worse). If you think this metaphor is far fetched, look into the [toxoplasmosis that controls our brains](#) to the liking of our furry friends, our cat pets.

Another metaphor appropriate which is more commonly known in Philosophy is from Eric Fromm's "To have or to be?" – basically to paraphrase the concept in one sentence, as we acquire material things, it is the things that own us – not the other way around as most owners believe.

Do you own the stocks or do the stocks own you?

This capital as a virus has no purpose, other than to self-replicate, expand, and find other ways to manifest itself.

Traders are the host. Traders and investors facilitate this capital-virus to test different ways to behave, and to eventually create new environments to exist.

Take the recent expansion of stock trading into dark pools.

20 years ago, if you had told any trader that a great majority of equity trading takes place automatically by robots (algo trading) in 'dark pools' which are not public and no one knows exactly what goes on inside, it would be laughed at as market science fiction. But now we are even far past that!

In the process of trial and error, there are extremes – big winners and big losers. Fortunately, the winners are happy to be greatly infected with this virus, and the losers have certain ways and means to recover losses, such as by [participating in class action securities litigation](#). And it

should be noted that securities litigation is a significant part of the market based system, without which many cheaters would go unchecked, thus the system would be eaten by dangerous cancers. Also fortunately, our legal system has evolved to facilitate market evolution, by allowing for market rules to be established, and for cheaters to be punished.

The market structure is defined by its behavior on a daily basis, from market participants, by trading and investing. Not by a grand design, and certainly not by regulators! Although the regulators, are a significant market participant from this perspective.

To put this in deeper perspective, let's think a little about the most unstructured and most significant market in the world; Forex.

Forex

Forex markets are completely different than other markets! We know this, but few understand how deep the Forex rabbit hole goes.

Forex markets:

- Are completely unregulated
- Are the foundation of ALL other markets, and global trade!
- Are directly connected to our nation-state political system popular now on this planet (as opposed to stock, bond, and commodity markets which can be localized and fragmented)
- Are the least understood

Although this is the case, in terms of market structure, equity markets (especially US markets) are significantly more structured than Forex, and have gone through magnitude thousands of evolution generations to produce what they have today. If markets had an 'age' – Forex is a baby, and the

stock markets are a wise old man. Slowing the evolution of Forex, there are few pure speculators in Forex (as opposed to the stock market, where near 100% of investors are speculators in one form or another). And those who have the large amounts of required capital to invest in Forex in a significant way, largely have some ulterior motive (such as politics, or to 'corner' a small currency market), or choose not to speculate in Forex (they use it as payment system and for hedging).

Some more contrarian facts unique to Forex:

- There is no 'insider trading' laws pertaining to Forex market (even if there were – how could they be prosecuted?)
- Modern Forex was created by 'accident' by Richard Nixon, in response to French demand for gold (US Dollar was backed by Gold in that time)
- If the Forex market itself didn't exist in its current form, the central bank would completely control the value of the dollar (any dollar, in their respective domicile)

Literally, the markets are the cutting edge of our global societal evolution, and have become an entity of their own. It could be argued that the market itself is the first form of Artificial Intelligence. Does the 'market' have an intelligence by itself? Oh – it sure does love all the computers we are building for it (nice and cozy new home)!

Further evolution

As the markets evolve, humans will become less and less relevant. Unless in the next years a group of major market participants get together and create a superstructure such as [Bretton Woods](#) (a very unlikely scenario), the market evolution will accelerate. New emerging markets will thrive and die, [new instruments such as Binary Options](#) and other derivatives will change how participants look at trading. Goldman will

create new fangled derivatives creating super-bubbles and topple dictators and open new markets.

Speculating on what the outcome of chaotic evolution process will look like is preposterous. Discussing market structure and what measures we can take to 'stabalize' markets is also preposterous. The idea that we can get all in the world to 'agree' on a 'comprimise' of what the markets (including Forex) should look like, is not feasible.

That's the whole idea of the markets! Traders all disagree – and voice their opinions with their capital.

What is practical – what is feasible. Prepare yourself! Educate yourself! [Do your own investing!](#) [Build your own algorithms!](#) [Get active legally if you have a big loss!](#)

If we don't prepare for the coming high tide, we may all drift out to sea.

The post [Market structure evolution](#) appeared first on [Forex IQ](#).