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By SUSAN LEE
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pg. 20

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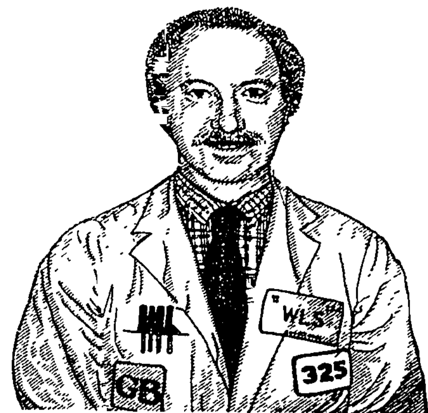
Why can't economists be more like other scientists? Anthropologists live among manioc-eating tribes; political scientists live among revenue-eating politicians; sociologists live among those experiencing Big Mac attacks. But economists, well, they live among other economists. They don't, as the saying goes, ever have to meet a payroll. Except one.

William Silber, a professor of financial markets at New York University and author of papers with titles like "Best Execution in Securities Markets: An Application



of Agency and Signaling Theory," recently ventured out. Not quite to meet a payroll, but to put his money where his mouth is—literally.

Mr. Silber spent a recent sabbatical as a scalper on the floor of the New York Futures Exchange. Now scalpers, as Mr. Silber is the first to point out, don't play with big money. Instead they are market-makers, providing liquidity by trading continuously—every 30 seconds or so—and hoping to make their profits off volume.

Scalping requires little invested capital (Mr. Silber leased his seat for a $15,000 margin deposit with a clearing firm) and it involves little risk (small trades, quickly closed-out). But as anybody who has seen and heard a trading pit knows, the earning of income does take a certain amount of shouting, hooting, waving and jumping.

Why, then, would a compleat finance professor, accustomed to the more genteel atmosphere of faculty club teas, venture out for such a venture? Well, says Mr. Silber reasonably, "I have always done my professional research after carefully observing the real world. I wanted to see whether I could actually perform in it."

And so he did. Though there were times during the first month that he had his doubts. "I simply could not understand how traders in the pit suddenly, almost uniformly, would shift from bidding 40 to 45 on the contracts they wanted to buy or would just as suddenly offer at 60 rather than at 65 the contracts they wanted to sell. The thought that I'd spent 15 years studying the financial markets and didn't know what everyone else in the pit knew by instinct gave me sweaty armpits."

Of course, Mr. Silber did catch on. He admits his running speed was a bit slower than a professional; scalper Silber traded about 90 contracts a day, never holding a position longer than a few minutes. And although he's shy about revealing his personal bottom line, he estimates that successful scalpers earn $10,000 to $20,000 a month.

What did the vacationing educator learn? By his own reckoning, quite a lot. He cheerfully observes that the intellectual capital he'd amassed over the years was virtually irrelevant. Indeed, Mr. Silber confesses that his success as a scalper had more to do with his need for instant gratification than his background in economics and finance. "The time horizon of a scalper's decision-making is so short that fundamental economics and finance are unnecessary," says the professor.

A point which was decisively brought home to him by an old-timer early on: Standing around day after day produced a painful callous on Mr. Silber's instep. So he sought some footwear advice from a seasoned trader. "Are you making money with those shoes?" asked the trader, pointing at Silber's feet. "Yeah," said Silber. "Well, keep wearing 'em," said the trader. He did.

On the other hand, Mr. Silber says his real world experience provided him with good explanations for some of the things which frustrate the unreal world of economic theory. For example, it is an article of faith among economists that, in the long run, the prices of things, like widgets, reflect the value which society places on them. So economists are offended when prices leap above or below that equilibrium price. Don't take offense, says Mr. Silber, just spend some time in the trading pit and experience the greed and fear which often influence decisions to buy or sell; the irrational is just the normal state of affairs.

More specifically, Mr. Silber has spent more than a little intellectual capital researching and analyzing the notion of "best execution." That is: When the public, responding to price information, calls in a buy or sell order, will the professional broker actually execute the order at the best price? Or will the broker dawdle around or even let the order slide to the lowest bidder or highest seller?

Mr. Silber's experience put his questions to rest. He says, "The competitive open outcry system"—clean talk for all that hooting and waving—"assures that public orders are executed at the best possible prices. If regulators would trade in the NYFE pit they would have fewer suspicions about failure to accommodate properly public orders."

When Mr. Silber's sabbatical ended in January, he returned to NYU to teach economics and finance to business students. He intends, however, to keep trading. And he also intends to transform his real world experience into an ivory-tower study called "The Microfoundations of an Auction Market." Ah, economists.

Susan Lee is an editorial writer for the Journal.

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