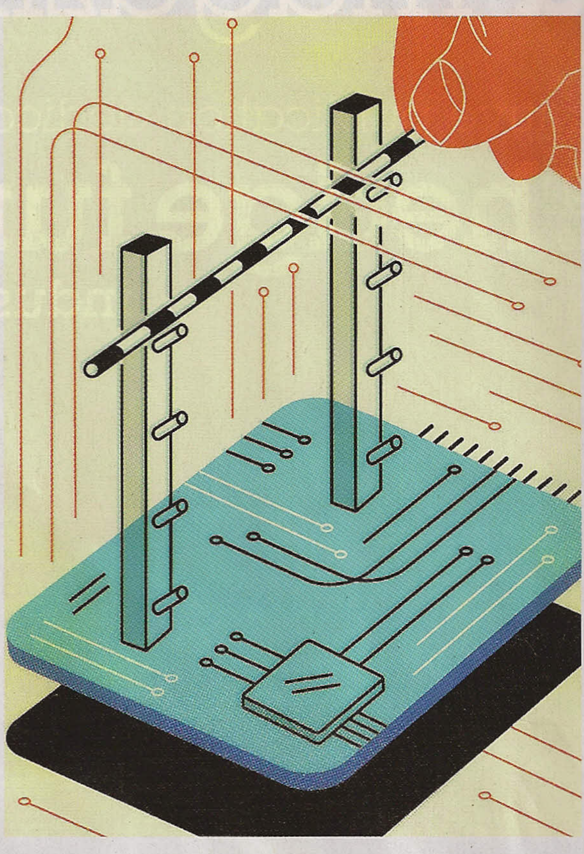

HARRY CAMPBELL

Higher Tech

Clients expect banks to provide an ever-increasing range of technological innovations. Here are some of the latest offerings available to traders.
BY MAUREEN NEVIN DUFFY

THERE WAS A TIME WHEN an investment bank that offered speedy execution, a good order management system and solid research could count on attracting a fair share of trading business. But that was long ago and in another economy. Technological advances and a desire by traders to access a wider range of investment products, dark pools and electronic communication networks have expanded the definition of "essential" tools that investment clients expect sell-side firms to furnish. Many brokerages and independent technology providers are increasing the functionality of existing products or introducing new ones to keep pace with client demand in an increasingly competitive environment.

Markit, a New York–based financial information services company, unveiled Valuations Manager last month. Using a single electronic platform, it allows traders to access independent and counterparty valuations of over-the-counter derivatives and cash securities, eliminating the need for money managers to spend hours consolidating multiple statements — in multiple formats — from various counterparties. Six firms — Bank of America Corp., Citigroup, Credit Suisse, Goldman Sachs Group, JPMorgan Chase & Co. and UBS — are already participating in the platform, and David Lefferts, Markit's managing director for Valuations Manager, expects additional banks to come on board in the coming months.

Also last month, Bloomberg's electronic communication network, Tradebook, introduced Smart Order Algorithmic Routing. SOAR is designed to locate liquidity in Europe's fragmented markets, while providing traders with a liquidity- and price-based approach to order placement and execution, according to Gary Stone, Bloomberg's New York–based director of trading research and strategy for Tradebook.

The release of SOAR follows on the heels of two algorithm-based tools the company introduced last year, Hide and B-Smart and React. Hide and B-Smart finds the most liquid venues for orders to "hide" in: A trader can place a large sell order for an illiquid stock and obtain price improvement from some sales without spooking the market by revealing the total number of shares available. It also relies on Tradebook's database to analyze previous trading patterns in a stock, while factoring in real-time market conditions, to predict price movements. Orders are moved to the market — be it an exchange, an ECN or a dark pool — that the algorithms predict will offer the best execution price.

"The goal is to be a liquidity aggregator," says Stone. By placing orders in dark pools and "hunting or probing around, we have an idea of where we should be."

React uses intelligence based on market display size, market spread, average daily volume and other factors to anticipate the reception a trade may receive within the top liquidity venues. Using real-time data, React attempts to predict short-term trends and seeks the best price among some 40 global exchanges.

Such new technology from independent providers is spurring brokerages to upgrade their own proprietary offerings.

"Brokers are trying to internalize the order flow of their clients instead of going to ECNs," says Allen Zaydlin, chief executive officer of Chicago-based InfoReach TMS, an execution-management technology provider. "If you send orders to Credit Suisse or Goldman, you'll get access to the same ten or 20 liquidity sources."

Which approach is superior, internal or external? "There are valid points to each," notes Zaydlin. "It may depend on whether the algorithm is integrated with others."

The B-Smart algorithms are not. "Quite a few traders don't use Bloomberg for trading, because it is not integrated into their straight-through-processing environment," Zaydlin says.

Not a problem, says Stone. Although Bloomberg distributes its tools through the platforms it rents in stand-alone configurations, traders on proprietary systems can use the algorithms, provided they execute their trades over Bloomberg's FIX network.

InfoReach expanded its own offerings in December by integrating its platform with a suite of quantitative research products from Natick, Massachusetts–based Deltix, to help firms create and deploy alpha-generating quant strategies.

Upgrading technology can be costly, but the investment is worth it, Zaydlin asserts. InfoReach's revenues jumped 22 percent last year, thanks in part to the acquisition of new clients, including leading French brokerage Crédit Agricole Cheuvreux.

"In this economy firms have to tread carefully," Zaydlin contends. Even so, traders will beat a path to the door of those that can best meet their ever-changing technology needs. ••