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NEWS

To The Editor

As an inter-market broker that specialises in complex and block-related option orders for a universe of hedge funds and sell-side firms, we are necessarily a strong advocate of trading system technologies that can enhance the process of bringing buyers and sellers together. As such, your June edition profiling various technology initiatives necessarily struck a chord.

That said, observations re how different types of technology can purportedly "solve the challenges" faced by buy-side traders in the course of broadcasting orders into the marketplace and securing best prices necessarily invite qualification.

Many of the innovative platforms would have market participants believe that there is "not enough liquidity on the exchanges to service large block flow." We would respectfully suggest that there is actually an abundance of liquidity within the listed markets; any misperception otherwise can be attributed to the one-dimensional nature of screens vs the multi-dimensional nature of pricing and betting strategies employed by today's quant-centric traders.

As former prop traders, we would argue that however feature-rich certain order routing and matching systems have become, professional traders, whether buy-side or sell-side, are inherently reticent to show their entire hands or their best price on a screen, regardless of how 'dark' those screens might be.

According to our customers, all of whom are tech-savvy, the human element of market insight and the guidance provided by objective, product proficient, non-conflicted brokers is an irreplaceable component to sourcing liquidity at the right price.

We do agree with those that lament the traditional IDB system as being inefficient. The concept of a customer delivering an order to one broker (ie facilitation desk), who in turn outsources it to another broker (the IDB), who in turn, communicates with yet other sell-side brokers and market-makers, necessarily introduces a 'daisy chain' effect that increases latency, and necessarily increases the overall cost of execution, as measured not only by net trade price, but the inherent cost associated with market impact.

Equally important: IDBs are inter-dealer brokers, and by definition, operate within the confines of the sell-side universe. Inter-market brokers on the other hand, are those that focus on connecting to all natural liquidity providers, regardless of their regulatory designation.

This is an important distinction, especially when recognising that advanced trading system technologies can be a double-edge sword; while black box, dark pool and technology have been duly credited with bringing more participants and exponentially greater volumes to the listed markets, the preponderance of 'competing systems' is actually fragmenting markets, as opposed to the intent of increasing transparency and liquidity.

Consequently, we find that hedge funds are increasingly reliant on brokers that not only have all of the 'bells and whistles' at their disposal, but are equally fluent in sophisticated hedging strategies, the real-world nuances of order execution, and can provide connectivity to the widest spectrum of liquidity providers, regardless of whether they are defined as a buy-side player, or a sell-side facilitator.

Michael Wallach, CEO
David Beth, president and chief operating officer
WallachBeth Capital, New York