Does Your Financial Network Make You a Better Trader?

Do you view your network provider as a plumber or a partner? If you answered plumber (i.e., just a broker connectivity provider), you are missing out on value-added services that your network can provide to help you achieve your best execution goals and ultimately make you a better trader.

The balance of trading power has shifted to the buy-side and the pace of innovation around trading tools and pools continues unabated. Your network provider can and should help you navigate this brave new world.

Since the overwhelming majority of trades are now executed electronically, network providers naturally have access to a multitude of information such as market data, performance measurement and trade cost analytics that can deliver added value to the trader. Today's leading network providers have evolved from commoditized connectivity suppliers to strategic partners that enable traders to demonstrate best execution.

Traders Magazine spoke with Stephen Alepa, Managing Director, ITG, who provided a checklist buy-side traders can use to determine whether or not their network provider is delivering value across the entire investment process, from pre-trade to post-trade analysis. Following are four ways your network provider should enhance your workflow, help you make better trading decisions, implement those decisions, and then evaluate the success of those decisions.

Source Liquidity Effectively: Your network provider should help you tackle your liquidity challenges.

Executing a trade in an increasingly fragmented market continues to be a challenge. From sourcing block liquidity to making routing decisions, asset managers seek assistance in navigating these increasingly complex waters. The network provider is in a unique position to help you make these decisions. How? Take for example, indications of interest (IOIs), which are making a comeback. The key is to provide a layer of analytics and intelligence above the millions of IOIs that stream across the various network providers' pipes. Features such as real-time alerts, analytical comparisons to historical trade activity and automated IOI-to-order creation allows traders to get more value out of these liquidity messages and use IOIs in the way in which they were originally intended: to bring buyers and sellers together.

Offer Real-time Actionable Feedback: Your network provider should deliver real-time feedback on your decisions.

It's simply not enough to analyze trades after the fact. Today's competitive trading environment, combined with an increase in electronic trading and new sources of liquidity such as dark pools and ATSs, have made trading more complex. To achieve their best execution goals, traders need real-time trade information so they can make adjustments on the fly.

Your network provider has access to real-time data that moves across the network and can make that information available to you. This information can help you monitor your execution quality both pre-trade and during the trade, giving you critical insights you can react to and help you evaluate your decisions. With the proper analytical engines, your network provider should provide you with real-time data on outliers, P&L vs. benchmarks, and monitor and analyze overall trade progress.

About ITG

Investment Technology Group, Inc. is a specialized agency brokerage and financial technology firm that partners with asset managers globally to provide innovative solutions spanning the investment continuum. A leader in electronic trading since launching POSIT in 1987, ITG's integrated approach now includes a range of products from portfolio management and pre-trade analysis to trade execution and post-trade evaluation. Asset managers rely on ITG's independence, experience, and agility to help mitigate risk, improve performance and navigate increasingly complex markets. The firm is headquartered in New York with offices in North America, Europe and the Asia Pacific regions. For more information on ITG, please visit www.itg.com.

Provide a Holistic Trading Cost Management View: Your network provider should give you a complete end-to-end view of transaction costs and best execution.

The art and science of transaction cost analysis has evolved tremendously. Having said that, your transaction cost management processes need to continue to keep up with the advances in your trading styles and techniques, from pre-trade through to post-trade activities. To illustrate, as fragmentation persists and algorithmic usage continues to rise, downstream trade ticket costs are getting to a point where they can materially offset the benefits of new trading methods. Thus, these trade ticket costs should be factored into the total cost of a trade – the backend explicit costs, if you will. Interestingly, this is not just a cost issue, but also potentially a client sales and retention issue as your institutional clients see their custodian bank fees increase as a result of your "best execution" trading practices.

Financial networks are uniquely positioned to leverage their role as a multi-broker access provider to offer a trade ticket aggregation (sometimes known as central clearing) service that can dramatically reduce trade ticket costs. In effect, your network provider, through such an aggregation service, provides you the freedom to trade the way you want, leveraging your new toolset as you best see fit, without worrying about downstream transaction cost implications.

Moving upstream, pre-trade analytics can also help you make better trading decisions. These tools help portfolio managers and traders estimate trading costs of specific strategies. Network providers are now in a position to complement their traditional offerings with such pre-trade analytical tools, providing a front-to-back view, a broad definition, of transaction cost management.

Provide a Global, Innovative Community: Your network provider should ensure broad global access that keeps up with the latest market innovations.

All leading network providers have lengthy broker lists for investment managers to access. That's a given. But ultimately what is important is being able to evolve that global community, keep up with its innovations, and satisfy regulatory requirements as well. The trading arms race is in full swing and your network provider should be on the forefront providing you with access to the latest liquidity pools and trading strategies. For example, within its community of 400+ global brokers, ITG Net℠ provides access to more than 450 unique trading strategies from 35 algorithm providers and invests significantly to keep up with its broker partners.

Executives Upfront

Stephen Alepa
Managing Director
ITG

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And let's not forget the other constituencies involved in the trading process such as custodian banks, data and analytics providers and industry utilities. The network provider's community should extend beyond the buy- and sell-side to provide additional value across the investment continuum with features such as SWIFT and Omgeo service bureau access and real-time trade processing exception monitoring. It's not just about connectivity; it's about workflow and providing solutions that tighten the trading supply chain and enable traders to work better and smarter.

In summary, buy-side trading has changed dramatically. If your network provider is still offering commoditized connectivity, it is time to switch providers. By helping you make, implement and evaluate trading decisions, your network provider can be a strategic partner that can and should help you rise to the marketplace challenges and opportunities you face everyday. •

__Stephen Alepa__ is a Managing Director overseeing operations for ITG's order management offerings. In this capacity, Mr. Alepa is responsible for leading client facing teams and for the expansion of ITG's network products and services. Prior to Macgregor's integration with ITG, Mr. Alepa was an Executive Vice President at Macgregor. Before joining Macgregor, Mr. Alepa was a partner in Arthur Andersen's financial services practice, and held senior positions at Coopers & Lybrand and Andersen Consulting.