Low latency traders

By **Tony Huck**, president and COO, **Lime Brokerage**, a **Wedbush** company

By many measures, systematic, low latency traders, more commonly referred to as high frequency traders, have replaced the role of the exchange floor specialist and the traditional market maker. This new wave of trader is responsible for supplying more than half of the overall trading volume in US equity markets, and now dominates the role of designated market maker on the NYSE. As this transformation in the industry has evolved, there is a much greater focus and emphasis on technology. Moreover, as low latency traders struggle with reduced volumes and narrowing margins, their technology requirements and the need to remain relevant and profitable continue to intensify and expand, thus placing greater demands on technology providers street wide. The firms that invest in and continue to innovate cutting-edge technology will be the clear leaders and winners in this highly competitive space.

To achieve their lofty execution goals, systematic firms require a true end-to-end solution. This solution should encompass a reliable, fast, and scalable trading infrastructure, with accurate and fast market data, secure risk systems, high-performance execution tools, and inexpensive and efficient clearing. Many of these firms are not of a size, nor do they possess the tangible resources that allow them the luxury and leverage of larger investment advisers and hedge funds, courting research, capital and other services, to choose all of the products they require a la carte. As a result, they are in a position that necessitates "one-stop shopping."

The targeted product suite for systematic trading starts and ends with a comprehensive and reliable trading platform, one that is able to deliver the highest performance on the most volatile of days. Thus, throughput is a quintessential component of this offering. Case in point, August 24 was the most volatile day of 2015, with the Dow Jones Industrial Average dropping over 1,000 points at the open. On this immensely erratic day of trading, Lime Brokerage, for example, successfully processed approximately half a billion messages through its trading servers on behalf of its systematic clients. In direct contrast to the often maligned and disaggregated marketplace, and the technology that supports it, the Lime systems operated dexterously and without issue, as did those across all of Wall Street. The new, technology-based market and its low latency participants operated as expected and in a manner that will build trust as markets continue to evolve electronically.

Tantamount to the speed that orders can be delivered to all of the markets' exchanges and dark pools, which is measured in nanoseconds for select providers like Lime, is the swiftness with which accurate and voluminous market data can be processed. This efficiency becomes exceedingly important as the exchange cost of market data continues to escalate at an exceptional rate, placing the very survival of many low latency traders in peril. Considering the very strenuous pressures surrounding the growing demands on capital requirements and risk by the largest banks and brokers, the systematic trading community undoubtedly needs technology, execution and clearing providers that offer reasonable capital levels and a focused product suite to maintain the essential liquidity for a healthy marketplace.

With the advent of extensive market access regulation, risk monitoring systems are the backbone of any low latency technology product solution. The ability to support the requirements of the SEC's 15c3-5 Market Access Rule is essential to any pre-trade risk product. Likewise, post-trade or real-time risk platforms need to be built upon the latest technological developments in quantitative finance and distributed computing. Much like Lime's cloud-based analytics engine, these systems must deliver scale and the power to calculate exposure in real-time, across large portfolios, and provide overall risk governance for all systematic traders.

While broker built, wholesale algorithms and smart order routers are less attractive to systematic traders that primarily rely on their own proprietary strategies for quality performance, there is a definite need for software to develop strategies, back test and simulate, and then introduce them into production. These can be valuable tools for all low latency traders to leverage, but especially for those attempting to enter the market anew and provide fresh, unique liquidity.

Lastly, a clear advantage for any supplier of systematic trading technology is to offer a pure agency solution. Firmly aligning the objectives of the technology and service provider with the systematic trader, in the most non-conflicted and efficient manner, assures that the market and all its participants will be provided with the vital liquidity it requires. ■

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