

# Why being broker neutral works best

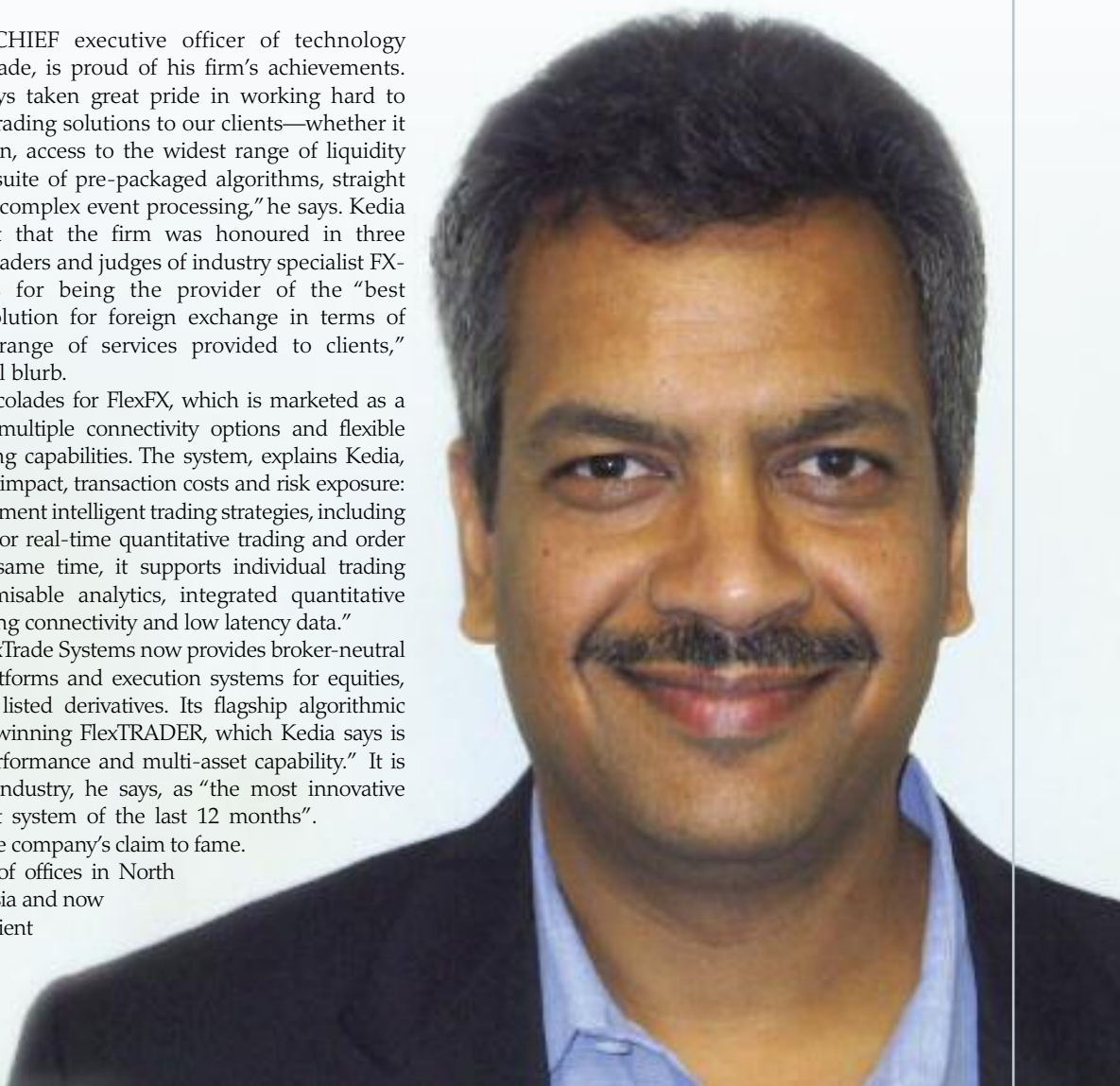
Algorithmic trading solutions are often the proprietary preserve of international investment banks with the financial clout and established trading technology required by clients. How then does a small company based in Great Neck, New York regularly win prizes for its multi-asset algorithmic trading offerings? Francesca Carnevale talks to FlexTrade's chief executive officer, Vijay Kedia, about the firm's business development strategy.

**V**IJAY KEDIA, CHIEF executive officer of technology company FlexTrade, is proud of his firm's achievements. "We have always taken great pride in working hard to provide leading edge trading solutions to our clients—whether it is for speed, innovation, access to the widest range of liquidity providers, the largest suite of pre-packaged algorithms, straight through processing or complex event processing," he says. Kedia can point to the fact that the firm was honoured in three consecutive years by readers and judges of industry specialist FX-Week's e-FX Awards for being the provider of the "best algorithmic trading solution for foreign exchange in terms of technology and the range of services provided to clients," according to the official blurb.

FlexTrade won its accolades for FlexFX, which is marketed as a neutral solution with multiple connectivity options and flexible foreign exchange trading capabilities. The system, explains Kedia, helps minimise market impact, transaction costs and risk exposure: "Offering tools to implement intelligent trading strategies, including user-defined analytics for real-time quantitative trading and order management. At the same time, it supports individual trading strategies with customisable analytics, integrated quantitative capabilities, smart routing connectivity and low latency data."

Founded in 1996, FlexTrade Systems now provides broker-neutral algorithmic trading platforms and execution systems for equities, foreign exchange and listed derivatives. Its flagship algorithmic platform is the award winning FlexTRADER, which Kedia says is known for its "high performance and multi-asset capability." It is also regarded by the industry, he says, as "the most innovative execution management system of the last 12 months". FlexTRADER EMS is the company's claim to fame.

The firm works out of offices in North America, Europe and Asia and now boasts a worldwide client base spanning more than 120 buy- and



sell-side firms, including investment banks, asset managers and institutional brokers. Kedia is adamant that discrete firms such as FlexTrade are best placed as independent providers of services to harness the changes running through the global trading market.

"People ask: 'How does the market cope with ever changing technology?' We turn that on its head," says Kedia. "Technology allows the market to deal with fragmentation while trading houses, exchanges and the buy side are all working with technology to ensure they are not disadvantaged by higher latency or market fragmentation. We hold that the crucial role FlexTrade plays in this regard is levelling the playing field."

In fact, increasing market fragmentation helps FlexTrade, holds Kedia, "more so because of the greater role that technology plays in a fragmented environment. In addition, the buy side in using technology such as ours can maintain confidentiality throughout the entire trading portfolio. That is where the advantage of being neutral lies in the overall equation. The trader can utilise different algorithms to suit various trading situations and still enjoy anonymity."

Through its platform, holds Kedia, the buy side now has exactly the same technology as the sell side and "as an important source of liquidity, where there is appropriate technology, we can link orders seamlessly, even in markets with a high level of fragmentation." It is a significant leveller, as traditionally the sell side trader has survived on intermediating orders. However, the global trading markets are undergoing significant change and among the most salient is the rise of the buy side in the overall trading universe as it seeks to maximise trading efficiency. "It is a fluid relationship and where we come in is in balancing that relationship."

In part, this is because of the "increased flexibility" that Kedia says is embedded in its offering. "The buy side can utilise our system to write its own algorithms. It can also decide to utilise a number of algorithmic trading programmes to suit particular situations. That flexibility is simply not embedded in the sell side offering. In some instances, it is a one size fits all offering, though that is not always the case and some brokers have specialist algorithms that are suited to particular trading styles." However, the key selling point for the FlexTrade offering is that the client has active and complete control over the trading process with seamless access to all sources of liquidity as well as sell-side capabilities.

### The sell side advantage

Even so, Kedia is aware of the embedded advantage enjoyed by the sell side. "Certainly, dark pools have to a degree given the sell side control again of that buy side order. Remember that the sell side is good at seeking advantage and proves its expertise in the growing array of services it offers; because of this proactive approach, it stays one step ahead of its buy side clients."

Kedia gives a nod that when FlexTrade was initially built, "it was with the buy side in mind. That is why we chose a broker neutral stance—one that could access all brokers. In other words, we are the other side of fragmentation."

Initially, the business was built out in the United States, and embroidered by a few "early adopters" in the European trading theatre. "Interestingly, and to our huge surprise," smiles Kedia, "despite that buy side focus we ended up selling large amounts to the sell side."

Looking ahead, Kedia says the challenge, as more markets take on an electronic character and there is an increasing depth of market data to deal with, is "to stay ahead in terms of new ideas, services and technology and adapt product to regional needs. In the US, for instance, we are looking at the provision of consolidated feeds via a single pipe, while Europe is only now catching up in this regard."

### Opportunity knocks

However, Kedia is brightened by the opportunity before him. "Europe certainly has lofty goals in the search for best execution and ultimately that means laying down a new layer of technological groundwork." While the future is bright for FlexTrade, it is also multi-focused. "Actually we also do asset classes other than equities quite well and we are looking to raise functionality across a number of segments."

This multi-stranded approach is paying off in "buckets," holds Kedia, "simply because of the need to provide services in depth. It also gives the buy side alternative sources of liquidity to boot. Additionally in this post crisis environment, with increased focus on regulation and risk management, new iterations are designed to allow the buy side and the sell side to improve their risk management systems, particularly in terms of hedging exposure across the entire multi-asset portfolio of securities."

The globalisation of the FlexTrade offering is the next logical step. "Most of our customers are already well established in the Asian trading markets—either hedge funds or trading desks embedded in traditional fund aggregators. As more desks trade internationally, it is encouraging us to expand both our sales reach and hone our products accordingly."

The future, thinks Kedia, will see greater demands from the buy side. "Technology has freed the buy side and independent providers such as ourselves have added to that freedom of movement. The buy side is no longer tied strongly to the sell side and that benefits both," he maintains. "The sell side remains committed to innovate and think in terms of overall service packages, and the buy side enjoys increasing market efficiencies." In part that trend will accelerate, he thinks, as expertise from the sell side increasingly migrates to the buy side as broker/dealing operations at the large investment banks shrink in the current economic climate. "Our work is cut out in supporting that movement, offering the increasingly sophisticated buy side trading desk ultimate flexibility and ease in deciding where and when to trade, and allowing efficient price discovery in the market. Moreover, we couple that with functionality that lets the customer analyse his trading activity and introduce proper risk management controls that apply across the portfolio. In that respect, we are working towards providing tomorrow's needs now."