



Hedge Funds the silent adopters of FIX connectivity

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Hedge funds are known for being tech-savvy investors, on the cutting-edge of technology, using the best and most robust systems for trading.



They consider their technology to be part of their competitive advantage and will push the limits of electronic trading tools to achieve maximum return and speed of execution. It's the universal quest for alpha that drives hedge funds to expand their strategies and incorporate more instrument types such as futures, options, and bonds into their portfolios. Hedge funds are incorporating more complex strategies beyond the typical long/short strategy and are seeking the latest and greatest technology to help them find liquidity and achieve best execution. As hedge funds look to increase their trading volume and velocity, they have become natural adopters of electronic trading. They're using electronic trading tools to enter orders for every asset class from options and futures

(options/futures/forwards are derivatives) to forwards and bonds incorporating algorithms to help reduce market impact, and sending orders to crossing networks to gain access to more liquidity.

While they may not be the most vocal users, they understand the technology and expect their brokers, electronic trading tools, and OMSs to provide them with the best tools to manage their trading and execution process.

Partnership

Unlike the larger asset managers, hedge funds are typically lean mean shops that don't have the time or

resources for building their own systems and tools. Because they are always looking to push the limits and employ the latest and most sophisticated technology, they are selective in choosing brokers and OMS providers that partner with them to develop the technology solutions that they need. Hedge funds themselves are often the drivers behind the innovation of electronic trading technology and implementation of FIX Protocol, serving as a main resource for research and development. If a hedge fund is entering orders through various electronic trading tools such as crossing networks and ECNs, and incorporating algorithms, DMA tools, and transaction cost analytics, they need to ensure that all of their trade information and data is synchronized across each of those systems. Hedge funds, brokers, and OMS vendors rely on the FIX Protocol to automate the process so that the data is synchronized in real time across all of the systems and tools that they use. Hedge funds have to work closely with brokers and their OMS providers to ensure that all of their tools are integrated seamlessly, and to ensure data integrity across all of the different systems and applications.

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Flexible technology

While hedge funds are quick to adopt advanced technology, they are selective about their unique workflows and how they view their data. The technology they use needs to be flexible to support all of the various FIX workflows. They want the technology to adapt to them. There are several ways to trade via FIX and a trader doesn't want his or her electronic trading capabilities to be limited by the technology. Hedge funds are also adopting algorithms at an accelerated pace, and the more popular they become, the more traders are concerned with determining their effectiveness. They're starting to use transaction cost analytics to determine best execution for the algorithms, brokers, and other execution tools they use. But, they want to be able to look at these analytics and other research and reporting in real time, as they are entering orders and modeling portfolios.

Regardless of how they want to work the order, traders need technology that can handle all of their different FIX workflows. All of the tools and applications a trader uses when entering and executing orders need to offer flexibility for incorporating several systems at any point in the trade's lifecycle, from order entry all the way through to trade settlement, minimizing manual and dual entry. There are a variety of ways for matching a FIX order to a trade in the blotter. They want freedom with their workflow so they can automatically define allocation, commission, custodian, manager, and strategy information for the trade when it is created in the blotter. For example, they want such tight and seamless integration that strategy information can be automatically defined for a trade created from a drop copy based on the manager and side of the trade.

For every FIX workflow that a trader employs, the technology needs to support real-time data integration between the OMS and the other systems. Hedge funds want the latest and greatest technology, but only if it is flexible enough to keep all of their systems synchronized in real time by automating the data transfer between their OMS and their third party systems, without forcing them to change or alter their workflow.

Flexibility for communication

A trader's need for flexibility extends into communication as well. Traders want their systems integrated, but they want control over how these systems interact with each other. Many hedge funds want to have complete control over trade state, so they use two-way FIX, requiring an acknowledgement for cancels, replaces, and changes originating from the broker. But, for order routing, some hedge funds might also want to allow their broker to initiate cancels or even to make changes to share amounts or limits on-the-fly. To fully support the complexity of the way hedge funds trade electronically, they need flexible technology that can support every flavor and combination of FIX communication; depending on how they want to partner with their broker, they need technology that supports the various ways of communicating with a broker for different workflows.

The OMS – A product distribution channel

Hedge funds aren't just sending orders to one destination, they work with several brokers, different DMA tools, multiple crossing networks and on top of that, they're starting to explore real-time research and analytics such as risk and cost assessment. In adopting all this new technology and functionality, traders still ultimately want

desktop convergence – one platform that supports their various workflows across all asset classes. They don't want to be jumping between applications every time they enter an order; they want all the tools they use consolidated into one space, and accessed with the same consistent workflow. In a sense, they want the OMS to become the desktop nucleus for trading. For the OMS to do this, it needs to support every flavor of electronic trading and customizable workflows across every asset class.

Essentially, the OMS is becoming the product distribution channel for brokers and vendors. For example, algorithmic trading is growing more popular among hedge funds, and the demand is for one consistent platform between all the different brokers. A trader wants the same look and feel of order entry for all brokers and for every different instrument. Hedge funds expect OMS vendors to bring the core strengths of each of those systems and deliver them to their desktops in a consistent and easy-to-use platform.

Multi-Asset class challenge

While we are already seeing hedge funds adopting electronic trading at an accelerated pace, it has not yet fully matured. As electronic trading advances and hedge funds hone the way they use electronic trading tools, they are going to expect support for electronic trading of every asset class. The electronic trading world moves quickly. Many hedge funds already trade equities electronically. We're starting to see OMS vendors building out the technology to support electronic trading of futures and options, and support for FX, CDS, and fixed income is on the horizon. Likewise, brokers are constantly developing new algorithmic tools and refining their existing offering and hedge funds want to have access to the most enhanced functionality. As new instruments go electronic and as brokers release new algorithms, hedge funds don't want to lag behind. They want their OMS to deploy new and enhanced functionality quickly. The OMS needs an infrastructure flexible enough to roll-out new functionality intraday, without disturbing their trading. Ultimately, they need a plug-and-trade framework that allows traders to access the most recent and cutting-edge technology from their desktops, as it is released, without disrupting their workday.

At the end of the day

This technology needs to be more than just fancy and fast – it has to be easy-to-use and integrated seamlessly into a trader's workflow. In creating this one-stop portal for traders, OMS vendors need to partner closely with the sell

side to make sure that they are integrating the tools as seamlessly as possible. Usability is key to traders when they are moving between different tools. They want their algorithms and brokers woven so tightly within their OMS that they can set up shortcut tools for their most-commonly used broker destinations and with one-click, send pre-determined algorithmic parameters to a broker. Or, to hedge risk or test best execution, spread the order across different destinations. They want transaction cost analytics to appear in their blotter and to view profit and loss data for swaps that they've traded electronically.

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Hedge funds are quick to adopt electronic trading because it offers them an efficient way to trade high volumes very quickly, while maintaining their anonymity. We're going to see this adoption accelerate amongst hedge funds in the future. But, they are not looking at electronic trading as the only way to maximize returns and achieve best execution. It is one of many tools that they look to supplement all of their other techniques. They want to incorporate electronic trading tactics into their existing workflow in a way that emphasizes usability but also streamlines all of their processes so that their trade data is automatically synchronized in all of their systems in real-time. They want synergy between all of their tools so that electronic trading is enhancing their style not hindering it. **FIX**

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