



FIXing the analytical process



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Former British Prime Minister Benjamin Disraeli is famous for coining the phrase “change is inevitable, change is constant”, but even he would be impressed by the brisk pace of change the securities industry has experienced in recent years.

Pre and post-trade analytical delivery presents an opportunity for FIX to save the day

The rapid pace of change throughout the financial industry in recent years has been unprecedented, and technology has been the unquestionable driver. In today's increasingly competitive environment, the buy-side is looking to technology to cut costs and improve trading performance. Evidence of this can be found in the seemingly unlimited collection of broker-supplied algorithms now available to the buy-side, a phenomenon which has emerged only in the last two years.

The rise of algorithmic trading has led to increased demand for additional tools and technology that help the buy-side trader better compete. In particular, the buy-side has shown an increasing interest in analytical tools to help improve trading performance. The importance of these analytics, both pre-trade and post-trade, cannot be emphasized enough. Analytics, which provide a trader with information to determine how best to trade and give them the ability to benchmark how well a stock or portfolio has traded, are just as important as the execution itself. While

the industry seems to agree on the importance of analytics, the best method for delivery remains at question; a question perhaps best answered by the FIX protocol.

Pre-trade analytics are defined as calculations which attempt to predict the expected cost of a trade when executed with a particular strategy at a specific time. Through the analysis of historical and intra-day information, pre-trade analytics help clients determine where and when to send orders. In some cases they can help determine whether or not to use algorithms and can help define the constraints of algorithms. Also, they can determine the opportunity cost involved in not making the trade, extremely useful in the drive for best execution. Post-trade analytics, in addition to tracking commissions, assist in uncovering the costs involved from the time a trade is initiated all the way through to execution.

Historically, pre and post-trade analytics have not been viewed as an integral component of the trading process, but rather a nice add-on. This perception has primarily resulted from a lack of technology available, as well as the

generic methodology commonly used that could not accurately reflect the varying trade strategies employed by different firms. But things have changed. These days, hardware is faster and less expensive. High quality market data is more readily available, as are the tools necessary to process it. In addition, there have been major advancements in the methodologies of transaction cost analysis that have made this a “must have” for buy-side traders. For this reason, brokers and third-party vendors are currently scrambling to develop and deliver these tools directly to the buy-side.

The purpose of these analytical tools is to increase trade efficiency across the board, but ironically, the current delivery methods are sorely inefficient. Most commonly, brokers offer them today through desktop applications or websites. The general workflow is as follows: A trader will log on to the broker's site, upload a trade file and then pick and choose a multitude of trading parameters and constraints. In most cases a buy-side trader may have several of these sites open at one time, comparing one broker's analytics to another. While increased attention on analytics is a welcome development, current delivery methods have forced the trader to interact with an unmanageable collection of applications and screens on the desktop. Even more cumbersome is the fact that the trader typically has to either “copy and paste” or manually enter the end result of all this analysis into their execution management system, a sorely inefficient method.

One step toward eliminating these issues would be to standardize delivery of pre and post-trade analytics on the FIX protocol. By doing so, buy-side traders will be provided the ability to consolidate the analytical data and tools from all of their brokers into a single platform tied directly to their execution and order management technology. This will not only allow traders to easily contrast, compare and determine which algorithms and strategies to apply to each trade, but will also enable them to execute directly on that information with the simple push of a button. The FIX protocol has already proven to be a valuable solution for desktop consolidation, having been used to integrate a plethora of broker-supplied algorithms within existing order and execution management systems. Additionally, standardization on FIX will allow easy, low-cost entry for additional experts and solution providers to enter the space, opening the industry up for further innovation.

The actual development work required to incorporate analytical data and tools within the FIX spec is relatively straightforward. The necessary data can be tied directly to orders, just as IOIs and RFQs are today. This would allow brokers a simple, pre-defined method for inserting the necessary data into a specified tag in the FIX spec and deliver it easily and quickly to their clients via their execution management systems, which are already being used as a single point of interaction between the buy and sell-sides. Post-trade analytics can be delivered via FIX by including the information in the execution report. Standardizing on FIX would allow a buy-side trader to utilize his execution management system to capture all his trade activity and predict (pre-trade) and evaluate (post-trade) this data from a single location, greatly elevating trade efficiency across the industry and bringing us closer to true transaction cost analysis.

The crucial aspect to turn this effort into a reality however isn't necessarily in the implementation, but rather the amount of support and attention given to the effort from across the industry. This is another reason why FIX is ideally suited to solve the analytical delivery dilemma. The vigilant efforts of FIX Protocol Ltd., the governing body overseeing development of the protocol, has produced the incredible result of a standard framework for business processes for financial institutions worldwide. With such a successful track record for efficiency, why not utilize the FIX protocol to deliver analytics? The FPL has a proven track record of success in development, delivery and adoption encouragement. Its members are dedicated, active and interested in increasing trade efficiencies across the board, and they have proven diligent in pushing previous efforts similar to this through.

Since its introduction more than a decade ago, the FIX protocol has radically transformed the industry to the betterment of all participants, and yet we seem to be only scratching the surface of what FIX can really do. Let's apply FIX to the full breadth of the trade cycle. Let's use FIX to trade better. Simply put, let's realize the full potential of FIX. **FIX**

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