

SECURITIES INDUSTRY

NEWS

HOW WALL STREET OPERATES

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How JonesTrading Began Trading Overseas, Without Leaving U.S.

By Alexa Jaworski

In late 2008, Will Geyer and his staff faced the question nearly all financial services firms must ask themselves at some point when they try to grow through technology: Buy or build?

The president and chief executive officer of agency broker JonesTrading Institutional Services wanted to provide his firm's clients with around-the-clock execution services six days a week in Europe, Asia and Canada, working on large baskets of international securities. In order to offer this, the firm needed a technology platform that would allow its 100 sales traders to execute transactions on overseas stock exchanges and multilateral trading venues.

CASE STUDY

For Geyer, the answer to the buy or build question was ... neither.

Instead, he turned to his firm's current technology provider, Fidessa Group, a provider of multi-asset trading, portfolio analysis, decision support, compliance and market data services as well as connections to exchanges globally for buy-side and sell-side firms. Fidessa, based in London, already had the state-of-the-art technology and technical talent that would allow Jones to trade internationally.

Rather than spend precious in-house resources developing a new system or investing in an entirely new and



Will GEYER

separate platform from another outside vendor, Geyer approached Fidessa, which already supplied the trading system Jones used for U.S. cash equities trading.

JonesTrading, based in Westlake Hills, Calif., evaluated a range of program trading and global trading systems. But turning to Fidessa “allowed us to be as efficient as possible to leverage the experience that we had without relearning an entire new system and going through all of the integration issues associated with it,” said Geyer, who was named CEO of JonesTrading in April 2008. He had been president and chief operating officer.

Jones already used Fidessa’s order and execution management trading capabilities in its 13 U.S. offices.

As part of the expansion, JonesTrading opened an office in Charleston, S.C., that could serve U.S.-based customers interested in trading the European markets. Charleston is in the Eastern time zone, so traders there could come in at 2 a.m. EST, stay through 11 a.m.—and, in effect, work as if they were in London or Paris.

“We have a team that works European hours now, and we plan to roll out an Asian hours sales trading capability to be launched towards the end of this year,” he said, adding that the firm is currently looking for talented sales traders. Geyer said the “Asian” traders will work out of an office on the Pacific Coast—or potentially Hawaii.

SLIMMING DOWN

Jones was Fidessa’s first real partner in implementing the international trading service, according to David Polen, senior vice president of hosted product marketing at Fidessa. Fidessa’s global trading service (GTS) was first launched in October 2009, with Asian markets and round-the-clock trading added in March 2009. Jones went live with the service on June 1.

“We didn’t buy another company

and say look, I can route a (financial information exchange) order back and forth—instead we said, the same system that you are using to trade locally in the U.S. can now trade internationally too,” said Polen.

When Fidessa decided to offer a managed service around trading internationally, the firm was able to leverage its proprietary ticker plants—sets of hosted servers that take direct feeds from exchanges so that they know all the exchange’s symbology and market prices and trades—located around the globe to provide real-time market data, foreign exchange rates and instrument data from over 100 foreign exchanges, Polen said.

“We knew that when you get an order in manually or electronically there can be confusion about what instruments you use globally,” said Polen. “For example, what does the stock ticker “A” mean in the U.S., or in Canada? It can mean different things in different countries.”

Fidessa’s international trading service resolves this, incorporating the various exchange and stock data, ticker data, ISIN (international security identifying number) or SEDOL (stock exchange daily official list) identifiers.

Jones’ decision to tap into its technology provider is an example of how financial services firms are consolidating technology platforms instead of taking on entire new systems, said Kevin McPartland, senior analyst with Tabb Group.

“People are trying to consolidate their applications, line up functions better and whittle down the number of systems they use,” he said. “Over the last decade, as new technology came on, people would need to add a separate system to do everything. Now we’re at a point where a lot of that is consolidated, the old view that a single system couldn’t do multiple things well is not really the case anymore.”

McPartland, who is currently working on a sell-side technology study examining trends such as this said he’s been posing two questions to the industry: How many total business applications is their firm using? And, is that number increasing or decreasing?

“In almost every case the number of applications is decreasing because people are consolidating,” he said. “I think what we’ve seen now is now that people have consolidated and in that process, those systems that remain become their strategic choice. And when they look to expand the business, they are going to expand with those strategic partnerships rather than create a new partnership.”

By using Fidessa to supply its international trading systems, Geyer avoids not only having to put his staff through the time-consuming training that would be required to learn a new system, but also the high price tag of a new system.

Although he was unable to quantify total cost savings gained by staying with Fidessa, Geyer said without them Jones would have had to build or buy a whole new execution or order management system, re-establish FIX links with U.S., Canadian and European exchanges and liquidity venues, and service the international business.

Based on the two months Jones has been trading internationally, he estimates Jones’ telecommunications, FIX lines, support and license payments have cost the company 50% more than the tack it took, expanding its use of Fidessa.

LESSONS LEARNED

By expanding his firm’s relationship with Fidessa, Geyer hopes to fulfill his goal for Jones: to replicate the best of what a buy-side trading desk has to offer—not necessarily the best of what has traditionally been a home-grown sell-side system.

“On the buy side, you take the best of breed of what’s out there and you hook it up to a system like Fidessa so you have the best algorithms in there,” he said. Rather than having to build a system themselves that may not be the best out there, Jones can be “flexible and tactical,” shifting between different algorithms from Credit Suisse or Bank of America Merrill Lynch, for example.

This goal is fueled by lessons Geyer had learned on the buy-side while running the trading divisions of Barclays Global Investors and Citigroup during his first ten years in the business.

At Barclays, Geyer ran the bank’s U.S. equities trading desk. In 2001, he joined Citigroup to run the bank’s global program trading division, which eventually grew into overseeing Citigroup’s global electronic equity trading businesses. There, he headed up the development and implementation of Citigroup’s first suite of global algorithms still in use today.

“We developed automated trading

technology at Citigroup that made our firm and customers much more efficient in handling orders,” he said. “In that process, what it allowed me to see was what could be traded electronically versus what should be traded electronically.”

“Having come out of a big investment bank that spent hundreds of millions of dollars on internally developed technology, I knew for a large bank like Citigroup, their brand identity is linked to what they were able to create in-house,” he said.

However, for a smaller enterprise like Jones, the focus is not on “verticalizing” a business by replicating what traditional investment banks are doing today, but taking a horizontal approach—namely, making sure the firm is the best at what it does. For Jones, that focus is trading—not developing technology platforms.

“Here at Jones, what we’re able to do is look at the best of what’s out there and then rent that,” he said.

“There are no gates that bar us from having the cutting-edge technology that is out there in the market by all of our competition.” ■

AT A GLANCE

COMPANY: JonesTrading Institutional Services

HEADQUARTERS: Westlake Village, California

PRESIDENT AND CEO: Will Geyer

FOUNDED: 1975

ANNUAL REVENUE: Privately held

ANNUAL PROFIT: Privately held

DESCRIPTION OF BUSINESS: One of oldest and largest pure execution-only trading firms in the U.S. Specializes in block trading.

OBJECTIVES:

- Focus on one thing. Strive to be best at sales trading
- Expand into derivatives, convertible bonds and other debt securities
- Deliver services across global markets

RESULTS:

- 2007: Brought in outside minority investor to facilitate the build-out of its strategic initiatives
- 2008: Built up trading capabilities in derivatives, convertible bonds and Canadian brokering
- 2009: Expanded sales trading to European exchanges

rhythm drive wave
fun trust people
natural clear confidence
partnership network
consistent liquidity epic
blocks light dig
pure ride



EQUITIES CAPITAL MARKETS FIXED INCOME DERIVATIVES INTERNATIONAL EQUITIES

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