

Best Execution

Industry Leaders Address The Search for Best Execution



A Supplement to Traders Magazine

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Pure Trading: An Inside View

A Conversation with Packy Jones, Chairman of JonesTrading



Packy Jones
Chairman, JonesTrading

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Why “Color” Matters

We believe that the greatest trading cost of all comes from not knowing what is out there. Which leads us to our next belief. For many trades — especially the difficult ones — the shortest distance between a buyer and a seller is a good broker. At JonesTrading we have the trust, the relationships, the experience and knowledge to find the other side. We have access to all the markets and know how to dig out the hidden pockets of liquidity.

The JonesTrading Network

Electronic bells and whistles are a given for any good firm. It's having the human touch involved that makes all the difference. Right now our team includes 16 former heads of desks. The combined average length of experience for our 72 traders is 13.6 years. These numbers reflect a deep understanding of the markets, a feel for how you get things done. We are becoming a destination for professionals looking for a way back to pure trading.

People Think, Computers React

Thinking takes you one step ahead of reacting. We anticipate, not just react. You know a good trade when you make it. You are only as good as your last trade. If you do a good job, clients come back.

On Our Plexus Numbers

JonesTrading is consistently at or close to the top in all categories measured by the Plexus service. The basic reason is we have to do a good trade. That's our business model. We only have best execution to rely on. It's all about doing a good job over and over again. It doesn't matter the size of the order, it's the quality of the execution.

Where We Stand on Algorithms

Parsing out trades into small orders using ECNs and algorithms can take time — which can open the door to some leakage. Yes, there are advantages to algorithms. They have their purpose and value, especially for the more liquid names. However, the cost of losing the opportunity to trade a block should not be overlooked.

Sometimes, it seems like everyone's missing the point. Why should you think about beating the VWAP by a few cents when you might be missing the whole market? It's sort of hiding behind a measurement standard that can be defended rather than treating the trade as integral to the portfolio strategy itself.

Our Vision of the Future

We are a thirty-year-old company that started with a model to do pure agency trading, with no other agenda. Our goal was



to go after big trades, do them well, and have our clients come back again. We may be the only firm never to have deviated from that model. Over this same period, firms evolved into other businesses, adding non-trading services that could be paid for with commission dollars. In the process, they took their eye off pure trading. Now, with trading costs critical to performance, we are in the right spot and it bears out in the numbers every day.

Best Execution Is All We Do

Best execution is what the client is looking to accomplish. In some cases, they want to get a block crossed and that's going to best serve them. In another case, they want an order worked throughout the day, quietly, using all the access we have. In other cases they might want us to execute the order right on the NYSE with anonymity and to do it in 15 minutes. Get it done quickly and move on.

We want to be known as the best at execution—not just best at block trading. The collective experience right here under the roof of JonesTrading is what makes best execution possible. It all gets down to human relationships and what's best for the client. As much as we would like to cross, we do what's in the best interest of our customer. That's the only way we get paid and the only way we get the client to come back and do it again. It's customer service in the most traditional sense.

Corporate Culture Makes a Difference

We are a company of traders run by traders. By definition, traders are always under stress. We offer a quality of life to compensate for that stress by giving people the opportunity to live and work where they are most happy. Often, that's not a downtown city environment. The majority of our ten offices are located in places like Aspen, Colorado; Greenwich, Connecticut; and Mill Valley, California. We were dressing casual 25 years ago.

Also, at JonesTrading family comes first. It's our credo. I'd have to say we have a high tolerance for distinct personalities. We really have one of the most diverse and unique trading staffs in the country with probably the highest production-based compensation payout in the business.

Our Word of Mouth

Customers seem to like that we are an ECN with a human touch. They think of us for the difficult and large orders, but once they know us they'll hand off a full range of trades for us to execute.

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Crossing

When you have a very high crossing ratio as we do, you have a very good opportunity to trade it naturally. This happens a little less than half the time at Jones. We are also adept at trading through a host of other means. But, obviously the ideal is a cross directly between a buyer and a seller and our network of experienced traders is designed to do just that. As we continue to add quality people to our network, our crossing ratio will undoubtedly continue to increase.

The bulge bracket guys are trying to centralize and we are continuing to decentralize. Which brings me back to the quality of life issue. We want to decentralize so people can do what they want lifestyle-wise. We continue to open new offices. A nice side benefit is that it helps support the local trading communities.

On Growth

While others focus on covering the top/biggest accounts, we believe growth will come from all sectors including mid-tier and small buy-side firms. Each customer is important to us, and relationships are the most essential part of our business. In fact, without them, trading wouldn't be any fun.





color

Before every great trade comes color. Real color. It's the feel, a taste, a conversation—based on naturals—getting you to the true picture of what's out there. With decentralized markets and fragmented order flow, clear access to color is increasingly rare.

Color comes through trusted relationships. JonesTrading was founded in 1975 to build those relationships in a network, and it remains the model we guard to this day. Trust is our only product. It comes from years delicately presenting names and size on behalf of the clients we serve.

Color takes experience. Our 72 traders individually average 13.6 years in the business. We have a pool rich in nuance and indications that make it possible for us to match buyers to sellers without exposure. The Jones market is real.

Behind every great trader is color. It starts with relationships. Trade completion is what we do.

JonesTrading

Quietly moving mountains since 1975.

JonesTrading Institutional Services LLC. Member NASD, SIPC.
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