

JonesTrading: Putting people first

By Anna Lyudvig

For one of the oldest and largest trading firms in the US and a leader in block trading, the focus has been and always will be on its people. With 40 years of operations, the California-based JonesTrading (Jones) is owned and run by its traders, which creates a culture of interdependence and trust. “We are a people-based business,” says Alan Hill, the firm’s chief executive officer. “We have people who have been here for 30-plus years.”

JonesTrading has always focused on having “the best people and the best culture”, according to Hill, who says that while other firms in the industry have focused on technology to the detriment of the human beings on the trading desks, the people aspect was always key for their business. “Obviously we know technology is important and we have invested tremendous amount of money in technology. But it is people first, and maybe technology after that,” he stresses.

The first Jones legal entity was started in the early 1930s in California by JonesTrading’s current executive chairman, William “Packy” Jones’s, grandfather. He was a principal in the equity brokerage firm of Mitchum & Tully, which became Mitchum Jones & Templeton in the 1950s. In the early 1970s the firm diversified into the retail and institutional business, and was acquired by Paine Webber. The next generation continued the JonesTrading legacy with the founding of Jones & Associates by Packy’s dad George E. Jones, Jr., in 1975. Headquartered in Santa Monica, California, the firm originally operated as an agency broker for institutions, holding orders for matching without actively marketing them.

In January 2004, Packy Jones assumed the role of Executive Chairman and CEO. Re-organized under the name JonesTrading Institutional Services, the firm quickly began to attract additional top talent from Wall Street, such as current CEO Hill, who joined the firm in July 2006.

Over the course of the last several years, the firm has expanded from its core US trading operations to new asset classes, global markets, investment banking, and the provision of market insight and information. Each of these initiatives enabled JonesTrading to deliver its relationship-based model,

which resulted in JonesTrading being named the Tabb Group’s 2013 “best in class” block broker.

MARKET STRUCTURE AND BLOCKTRADING

Block trading changed a lot in the last 10 to 15 years. In the wake of the market structure changes between 2001 and 2007, there was a significant decline in block volumes, however in the last couple of years there has been a decent resurgence. “I think over the last couple of years, clients have realized that blocks historically were the way to go,” says Hill. “We think there will be a pretty significant increase in block trading in the coming years.”

Hill says there is a really big appetite in small and mid-cap names: “People aren’t necessarily coming to us to trade a block of Intel or Microsoft, but there is a very good appetite for anything that is a small or mid-cap name and has a lower daily volume.”

Hill adds that from a market regulation perspective, trying to have a one-size-fits-all set of rules that keeps everybody happy is never going to happen. “But that seems to be what the regulators are striving for. That’s what they were striving for with Reg NMS. They ended up with 14 different exchanges.”

Hill says that Reg NMS changed a lot of things and as markets have gotten fragmented, institutional desks are having a “very hard time” getting their orders done. “Liquidity is and has always been the number one concern and will always be the number one concern on institutional trading desks.”

“So if you are working in a fragmented market where you don’t know whether there is any real liquidity and you have a large institutional side order, block trading is always going to be an important arrow in the quiver if you’re on the buy-side desk.”

The biggest concern for Hill is around block trade exemption: “Whatever rules the regulators are passing we would always push for block exemptions. So that if you are trading over 10,000 shares you wouldn’t necessarily have to be held to some of the rules that may be applicable to the 100 share lots and price improvements.”

JonesTrading’s Executive Chairman, Packy Jones, adds that block exemptions ultimately benefit institutional clients: “Regardless of market structure blocks have been around for ever and ever.”

One of the biggest changes that has been very good for Jones, according to Hill, is that all their competitors “ran to provide algorithms to their clients and decided to compete on price points.”

“I think what you have seen is that everyone else’s services have been commoditized over the last 10 years, because everyone’s VWAP algo and everyone’s TWAP algo is the exact same,” he says.

“That’s been very good for us – not only we have access to all those tools and can access every single algo on every electronic venue and provide best execution on that side, but we’ve obviously continued to focus on block trading. The market maybe has shrunk a little bit, but our market share in the block area has increased tremendously,” he says.

SOURCING LIQUIDITY

The TABB Group’s annual Institutional Equities Trading report for 2014, confirms continued interest in block trading. The percentage of institutional volume done as a block increased to 12% in 2013 from 11% in 2012, according to TABB’s estimates. Nevertheless, there’s been a significant gap between what could trade as a block, the amount the buy-side wants to trade in blocks and the actual block numbers. For Hill, that is a very interesting dynamic: “The buy-side has said they love to trade more blocks and then they don’t trade as many blocks as they would like to.”

He thinks there has always been a gap, adding that Jones is here to bridge that gap and provide old-school block trading to people: “I think one of the reasons now people would like to trade more blocks, but they can’t, is that because it’s hard to source liquidity. I think the buy-side is more challenged with finding liquidity than it’s ever been. We are here to try and find them real liquidity.”

As portfolio managers and traders seek to gain performance in an increasingly difficult environment, JonesTrading brings the ability to source liquidity in tough-to-trade situations. The firm defines a block as 20% of the average daily volume: “We think the most efficient way to get into the position or out of the position is to do it in a block,” says Packy Jones.

Since early days, the sole focus of JonesTrading has been creating liquidity for institutions. Hill says that over the last 10 years, many clients have gotten rid of the human element of their businesses and as a result institutions want to trade more blocks, but they don’t have enough people to trade those blocks with. Hill stresses that their focus has always been to have the biggest trading network on the street: “We achieved that by hiring the best people, who have the best relationships with clients. In the brokerage business you’re transacting massive amounts of dollars on behalf of clients, so trust is incredibly important.”

Hill says that Jones covers around 2,000 clients and can source liquidity because a block trade might



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happen between client number one, who might be a huge institutional money manager on a global scale and client number 1,000, who might be a \$100m fund that is run by two people, but happens to want to be on the other side of that trade. “The bigger firms can never source that liquidity because they don’t even know who client number 1,000 is. At Jones we have a trusted platform connecting a diverse group of institutional market players.”

He adds that if you are an institutional seller of a million shares, it may be hard to find a buyer of one million shares, who wants to match up with you at the same price and buy your entire position. “What we will do to source liquidity is finding an anchor buyer who might be 300,000 shares, but because of the size of our network we can find 10 other clients to fill in the remaining 700,000 shares and put together a trade. Now we’ve built a trade that involves 12 institutions on the street and not many people can do that,” he stresses.

For Hill, the best execution is to put together the largest trade as close to the quote on the screen as possible: “We are facilitating our clients to buy or sell the stock as efficiently, as quickly as possible. They get that order off their desks, they move on to whatever else is important, and they’ve minimized the market impact of that order.”

FUTURE OF THE BUSINESS

At Jones, Hill is responsible for continued organic growth in current operations as well as setting the ongoing strategic agenda and initiatives. He says that the firm’s goal for this year is to expand globally. “Jones recently opened up a London office. We believe our services and the way we execute businesses is going to be very valuable in the European market too. We are looking into expanding into a few different asset classes. We are going to make a big push in capital markets as well. We will also continue focusing and hiring the best people,” he says.

“We have had a very successful run of 40 years. We have focused on what we’ve done best, we haven’t tried to be everything to everybody and I think we continue to focus on what we do best. We look at ourselves having a very bright future here,” he concludes. ■