Momentum, singled out amongst our peers . . .

TradeTech attendees and staff ask **Garrett Nenner, Managing Director of Global Markets**, Momentum Trading Partners, his opinion regarding developing market structure, future trends in cash desk trading, and the effects of HFT in future regulation:

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Commentary From The Leading Electronic Trading Industry Event

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Q Where is the buy side/sell side relationship heading?

A The buy side relationship with the sell side is evolving. With advances in electronic access, algorithms dynamically changing, addition venue types as well as the growth of latency sensitive strategies all competing for price discovery and liquidity – and information leakage becoming a growing issue based upon venue design, the buy-side is well served by going to firms that specialize in their needs in execution. For example, an agency broker dealer that fully understands market structure and the design of the many different venues can navigate these liquidity points – sourcing thinner liquidity with minimal market impact. Algorithm use, provided by B/D's are good, but too many times are used incorrectly and as a crutch, supplying just 'adequate' execution as opposed to a skilled trading partner educated to the market who's prime focus is execution – and maintains the best technology to do so.

The growth of CSA enables the fund manager to receive the best of both – best non commoditized research, and a highly skilled and proven trading partner. This movement is effectively a reversal of the immigration to the investment banks in the 80's and 90's. The buy side is now looking for a real partner and therefore experts who understand their strategy and maintain the skills and tools to execute it with proficiency and verifiable through transparency. Through many of my own conversations held with peers in the US and developed Europe, the response to this ideal is one and the same. One stop shopping may save time, but that simplicity may cost you explicitly - via commissions for services you may not be using, and implicitly within the opportunity cost of poor execution.

With the ease of gaining research today, both fee-based and offered through various internet and vendor sources, market research is indeed commoditized. With the lack of a truly unique offering provider, the buy-side's wisest decision is to utilize the expertise of the aforementioned specialized broker dealer whom offers unique market information and insight , who is in tune with relevant research to the client's strategy and is educated in the ability to use it in the client's favor through execution.

With respect to investment in their businesses, research houses are being relieved of the need to maintain a trading desk and all the investment that goes with it and still get paid on their ideas – checks are acceptable. The agency broker dealers will focus (are focusing, have focused) investment in putting in place the best in class trading desk – while not having to invest in a research offering. Dollars well spent for both.

Q If you had a magic wand and could change one thing about the way markets operate, what would you do?

A With the rise of HFT, there is a consistent thorn in the side of many traders on both sides of the desk regarding order cancellation rates. The continual order placement, removal, and re-placement create 'ghost' price indications and false liquidity. The additional thought that HFT adds liquidity '100 shares at a time' appears to add liquidity only to other HFT traders and only minimally to the general fund manager's order/execution – and increases slippage costs.

This type of trading is straining the regulators' efforts to provide effective controls to inhibit the information weeding trading techniques used by these types of strategies through order placement and cancellation, the absence of obligation within market making strategies and the like – without responsibility, and the artificial price indications which occur as a result.

At present there are several ideas on the table – charging order cancellation fees within a certain time period from order entry is one, adding a layer as to the number of cancelled orders or percentages of cancelled orders is another. I don't envy the task of the regulators but they are a smart bunch. With this in mind, the fund manager's best response is to use a broker with the skill set to discern these false prices and the technology and market sense in order to source the true liquidity.

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Regarding best of both: Research & Execution:

"… CSA enables the fund manager to get the best of both… best research… and a highly skilled and proven trading partner"

Dealing with HFT and 'ghost' markets:

"the fund manager's best response is to use a broker with the skill- set . . technology and market sense in order to source the true liquidity"

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