

THE END OF TRADERS?

Is technology making traders obsolete? Possibly, says **Clare Gascoigne**, but it also means greater transparency and efficiency

There's a revolution going on in the front office. As technology gets smarter, fewer people can do more work more efficiently than ever before. What with automatic trading and self-evolving algorithms, is the trader about to go the way of ticker tape?

"The barrow boy's day is certainly gone," says Dr John Bates, Vice President of Progress Apama, a supplier of front-office software and products. "But there's still a role for people as creators – the highly gifted traders that set this evolution in motion will stay."

His words are echoed by Mark Montgomery, Business Development Director at LatentZero, which provides technology to the buy side. "There will be a reduction in staffing up to a point, but for some it will be a shift. There will be fewer traders in investment banks, and more on the buy side, because the technology gives them the tools to manage the order flow themselves."

No one has done any clear estimates of job losses, though some experts compare this revolution with the markets going electronic, and suggest as many as half of those currently employed will have to find alternatives. So what is this change and how has it come about?

Up till now, technological change has largely affected the back office. Out front, dealers still phoned their brokers to trade and portfolio changes were still made with the help of investment banks. But that is set to change; nearly three-quarters of IT professionals surveyed by Eurobase last summer believed the front office would be the area that would most benefit from IT spending in 2005.

A shift in focus

"The front-office role is changing and becoming much more sophisticated," says Clare Vincent-Silk, a consultant at InvestIT, a management consultancy. "It is all about becoming a specialist in finding the best price."

Best execution has, of course, always been the name of the game, but it wasn't always possible to do, or rather to prove that you had. The publication of the Myners report three years ago was the first cloud on the horizon; it criticised soft commission and bundled trade services, leading to a drive towards transparency. Other regulation, such as the Markets in Financial Instruments Directive (MiFID), has followed, leading to a demand for a more rigorous kind of paper trail.

"Regulation has put more demands on fund managers and the industry as a whole," says Montgomery. "People can now perform checks and balances far more efficiently, and fund trustees and fund holders are beginning to realise that information can be captured and presented in a very clear way, very quickly."

Now, far more transparency is required by clients, and there is a greater need to manage that. Technology has been both saviour and taskmaster, as clients have begun to use the information against the fund managers.

"Patience and tolerance are decreasing all the time," says Montgomery. "Trustees are now able to question what they had taken for granted, or weren't able to question because they didn't have the evidence until three months later."

Technology is now operating in real time, allowing compliance departments to spot a misplaced trade immediately. "It's a bit like TiVo [the digital television system that allows you to pause and replay live action]," says Bates. "They want to be able to spot when someone is, say, wash trading ..."



Clare Gascoigne



[where an investor buys and sells at the same time through two different brokers, giving the impression of increased activity]. At the moment, you can only do that at the end of the day, by which time the trading has moved the market. You need to be able to spot it in real time, and the only way you can do that is by using algorithmic techniques.”

Number crunching

Much is made of algorithmic trading, which uses advanced mathematical models to decide whether, where and how much to buy and sell. “It is a step change akin to the markets going electronic,” says Bates. “The algorithm watches the market data and manages trades.”

The programmes have become the must-have piece of kit; companies that bought into it first saw the system as a means of increasing revenue, while those that are buying now see it as a means of holding on to existing income. Today’s luxuries are fast becoming tomorrow’s necessities. And new developments using algorithms mean fewer, albeit smarter, staff. “Automatic trading does everything the

trader did but doesn’t need to use the toilet,” says Bates. “It will manage its own risk portfolio and hedge its own deals.”

That only leaves room for a few highly sophisticated traders, who will be co-ordinating strategy rather than acting as a conduit to the market. But, before we get carried away (a 2005 TABB Group report estimates algorithms will still only be worth 17 per cent of the order flow allocation by 2007), it is worth remembering that once everyone has an algorithmic programme, the competitive edge is lost.

“Technology ends up converging to the norm,” says Montgomery. “When everyone is doing it, it becomes the average – but everyone wants outperformance.”

And that means working smarter, not harder. Technology will expose the poor performers, and that applies not just to traders but to analysts and portfolio managers as well. Technology allows a firm to find out if its analysts’ research is being opened and read, for example.

“It is all about understanding how effective research is. There is far more performance measurement of research, both internal and external,” says Vincent-Silk.

Measuring not only performance but also costs is critical to success; not surprising when you consider the high salaries paid to personnel. But the investment industry is increasing its ability not only to monitor cost containment in the back office, but also profit generated by the front office.

The other part of the revolution is the rise of the once lowly buy-side trader.

“We are seeing sell-siders moving to the buy side. The buy side is now dealing far more frequently and with far more sophistication,” says Vincent-Silk. “This technology gives you the tools and figures to trade and shows you what the prices and volumes are.”

Power play

Buy-siders are now in a position to trade themselves, competing head to head with investment banks through systems such as Direct Market Access. This has changed the balance of power within traditional investment relationships.

Says Montgomery: “The sell side has always been very careful not to compromise the client, but the more the buy side can keep their positions under wraps, the better. They now have the tools to achieve that. If the buy side has the tools to manage the order flow itself, that is better than handing control to the brokerage community.”

But the new technology comes at a price, which may have to be paid elsewhere. As it becomes possible to micro-manage trades, breaking them down into smaller blocks to prevent price movements, the number of transactions increases massively, which affects the back office.

Maybe those whose jobs have been crunched by the new technology will find another home: by moving into the operations department. Now there’s a revolution indeed.

www.sii.org.uk

TRENDSPOTTERS



If you’re still reeling from the festive season excesses and the thought of another glass of brandy or one more mince pie sends you running for the hills, we’ve just the solution. Here’s a selection of spas to pamper you back to normal.

Compiled by Helene Dancer

The Spa at Mandarin Oriental

www.mandarinoriental.com

020 7201 3773

Look no further than this little London gem if it’s luxury you’re after. Based in opulent Knightsbridge, the Spa at Mandarin Oriental offers everything from a shiatsu ginger compress to a life-enhancing ritual (full-body scrub, wrap, massage and facial).

You could also try the tempting Chakra balancing with hot stones, which is supposed to result in a “rejuvenated sense of equilibrium”, according to a spokesperson. We’d be more than happy to put the claim to the test.

Visitors are also urged to arrive 40 minutes ahead of their treatments so they can immerse themselves completely in the spirit of the spa. There’s a vitality pool, a colour-therapy relaxation room and an amethyst crystal steam room. Truth be told, we’re already horizontal at the thought.

Champneys Health Resorts

www.healthfarms.co.uk

08703 300 300

If the idea of sharing a plunge pool with the likes of Kate Moss, the Beckhams or David Hasselhoff appeals, or you just need some rest and relaxation, then Champneys is the place for you. They have various health resorts all over the country (including Hertfordshire, Bedfordshire, Leicestershire and Hampshire), offering all manner of relaxation programmes.

Champneys prides itself on the thalassotherapy pool, which is supposed to be great for cellulite, arthritis and cramps, among other ailments. The salt water is rich in minerals and there are hydrotherapy jets aimed at specific parts of the body for maximum effect. Other treatments include massage, acupuncture and aromatherapy – all the right ingredients for a post-festive season detox.

Cowshed

www.babingtonhouse.co.uk/cowshed

01373 813860

www.cowshedclarendoncross.com

020 7078 1944

It’s all well and good having a good de-stressing session, but to be confronted by the mean city streets afterwards might not be the best way to prolong that feeling of wellbeing. That’s why a trip to Somerset’s Babington House might do the trick, as the stately hotel is home to the Cowshed. The spa boasts a sauna, indoor and outdoor pools, and a host of pampering Cowgroom treatments. These are touted as the most popular – and we can see why. Two therapists, a rose-petal foot soak and forehead pressure-point massage, all before your chosen treatment begins. Luxury.

Cowshed has also recently opened a London branch in Clarendon Cross, where customers can plug into their own plasma screens and watch a DVD if the sight of feet mid-pedicure becomes too much.

Serenity Spa at Seaham Hall Hotel

www.seaham-hall.com

0191 516 1400

Find that the family Christmas is more stressful than six months of Black Mondays? Then you may need a deep tissue massage to calm those shattered nerves. The Serenity Spa at Seaham Hall Hotel near Durham can help. It also offers a “Bodical” for men, which is a lymphatic drainage massage followed by a detoxifying facial, or a “Muscle Melt” to relax and soothe and send you back ready to face the rigours of 2006.

Or you could take your partner off to the Rasul mud chamber, followed by a shower for two and a rest afterwards in a private couple’s treatment room. No need to be selfish about it all, is there?

