

# wall street *letter*

## STEPPIN' UP

### Smaller Brokers See Shot At Market Share ...

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Small brokerages are hoping to cash in on the consolidation of the market by increasing their offerings while the dust settles at the big firms. Firms are trying to step into the monetary void with improved technology. "With the big guys otherwise occupied, customers are asking more of smaller brokers," said **Jamie Selway**, managing director of **White Cap Trading**. "They have to step up their game."

Smaller brokers are aiming to pick up trades from the discretionary flow that was previously going to **Lehman Brothers** and **Merrill Lynch**. Buy-side firms with internal thresholds that kept them from sending orders to smaller trading shops should re-evaluate those thresholds so they can spread out their risk, said **George Madrigal**, managing director of **Penserra Securities**. "These smaller brokers may not be able to compete on ultimate price but they can come awfully close and take away some of that risk," said **Marc Kaplan**, head of sales at **Tethys Technology**. Previously, the bulge brackets firms were the only ones with the money and resources to build the infrastructure needed for technology. "Eighty percent of what it takes to go into an algo is figuring out how to navigate the fragmented marketplace, direct access and infrastructure," said **Scott Harrison**, ceo of **UNX**, a technology provider and agency brokerage. With the rise of technology vendors though, technology has become commoditized. Several firms had used white-labeled algorithms and technology to bulk up their offering; some of these firms now are building their own algos. **Capital Institutional Services** launched 10 algorithms of its own in August (*WSL*, 7/21). "CAPIS can absolutely compete with **JPMorgan** and the like," said **Jim Morrow**, chief operating officer. He noted that the firm already competes through its algorithms, independent research and other areas.

Madrigal said technology is the key. "If you don't have the technology, you just can't compete," he said, adding that while it is not too late for smaller shops to perfect their technology, firms who do not seize this opportunity will be left in the dust. His firm has steadily been evaluating its technology for years; with a fluid platform, it can swap out older pieces of technology. Madrigal also suggested that smaller firms continually evaluate the electronic communications networks that they route orders to, ensuring that the firm always gets its orders filled.

**Matt Samelson**, **Aite Group** analyst, urged firms not to make hiring or technology decisions solely based on current market conditions though. He said firms should have a strategic plan for

growth already and if that plan includes beefing up technology, then continue the course. At the very least though, these smaller firms need to make themselves more visible through marketing, he noted.