The Magazine for Securities Industry Professionals

TRADERS MAGAZINE

www.tradersmagazine.com

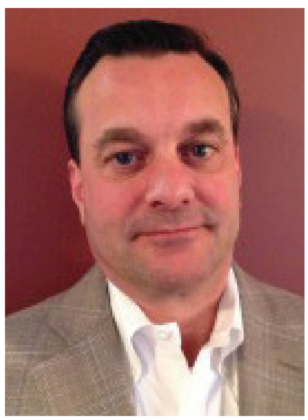
APRIL 11, 2014

A Trio of Ex-Cowen Execs Open Wrap Trading Business at CAPIS

By John D'Antona Jr.

It's the best little big secret in the equities market - the wrap trading or managed account business.

One could call it the Rodney Dangerfield slice of the equity trading business, as it gets little respect from most trading houses. But Mark Viani and Co. at Capital Institutional Services, Inc. (CAPIS) don't see it that way.



Mark Viani

In fact, Viani and his team are going after this off-the-beaten path segment of equities trading and have opened a new desk for the Dallas-based agency brokerage, built a new trading platform, CAPIS ARC, to handle this volume. And they are up and running and ready for business.

The managed solutions account business or wrap business is huge - totaling $3.4 trillion in assets under management as of Dec. 31, 2013, according to the Money Management Institute. That's up from $2.7 trillion at the close of 2012. And the figure is expected to grow, industry sources said, to around $3.7 trillion by the end of the first quarter. In comparison, the hedge fund industry has $2.2 trillion in assets under management, according to BarclayHedge.

A managed "wrap" account is an investment account held by an individual investor. It is run by a professional money manager. In contrast to mutual funds, which are professionally managed for a herd of investors, managed accounts are tailored investment plans designed to meet a specific investor's needs.

The problem in wrap trading is that it has historically been very labor intensive and costly. The buyside wants a one-stop, front-end solution to communicate their wrap retail orders similar to the larger institutional orders and not sacrifice time and efficiency. If an institutional order takes minimal time to execute and report, then the buyside wants that same speed and performance for its retail wrap orders.

CAPIS, an independent agency broker that was already in the commission sharing arrangement and soft dollar business since 1977, decided it wanted a piece of the wrap business to complement its existing offerings. To that end, it scooped up a trio of ex-Cowen pros Mark Viani, Robert McHeffey and Jessica Oliveras-Yu.

The new wrap team led by Viani, who is director of managed accounts solutions. Viani, a 28 year pro, most recently worked as managing director, in Cowen's electronic products group. At his right hand is McHeffey, also a 28 year veteran. He works alongside Viani as a sales executive - in the same capacity he did at Cowen. McHeffey most recently was co-director, electronic products group at Cowen. Oliveras-Yu serves as their client service representative. Oliveras-Yu, a 16 year market pro, was a vice president in the Cowen electronic products group.

According to Viani, the wrap industry, and its arcane and outdated standards and processes are the problem. And the buyside's too. To that end, Viani and McHeffey created a new wrap utility that automates many of the manual functions needed to complete a wrap trade and serve the best interests of the underlying retail client; the mom and pop investors.

"Simply stated, CAPIS ARC empowers the investment advisor to achieve its requisite for best execution fiduciary responsibility," McHeffey told Traders.

Thus, CAPIS ARC (Allocation, Reconciliation, and Clearing) was developed. ARC is a post trade allocation utility for asset managers that sub-advise to the managed account industry. The utility allows the asset manager to accomplish the following - aggregate their wrap orders, execute those orders with their best execution broker, pay that broker a commission and automate the step-outs and email notifications.

ARC also acts as a middle- and back-office for matching and settlements. It matches trades on T+1 basis with both the sponsor and executing broker. ARC also fully discloses all components of the post execution process to the investment advisor.

A "step-out" is when an asset manager executes through a broker of his choice and that broker "steps out" or gives credit or commission to another broker for portions of a trade. The executing broker typically clears the trade via a trade reporting and clearing system, such as ACT. But they can send it elsewhere if they desire.

"With CAPIS ARC, our goal is to assist our investment manager clients by providing a settlement utility that simplifies and improves their process of providing best execution for their managed account clients," said Jim Morrow, chief operating officer at CAPIS.

Getting client orders filled with best-execution, restricted to their sponsors and custodians, is a major challenge for buysiders and other investment advisors. The successive execution of wrap orders is commonly called "rotation." The presently used style of rotation is chosen by the advisor to be what they feel is fair and equitable, with no sponsor always being first. CAPIS ARC enables the advisor to eliminate the widely criticized practice of "rotation."

And at least one buysider has embraced CAPIS' approach and its ARC product. Kin Ng, head trader at New York-based Atalanta Sosnoff told Traders that for him using a product like ARC is all about getting best execution for his clients.

"For us on the buyside, using the ARC suite doesn't handcuff me to a broker's dedicated wrap desk or a single broker," Ng said. "With a system like this, I can pursue best execution wherever I can find it. And that's the goal of every buyside trader."

And for Ng, who manages just over $2 billion in wrap trading or one-third of Atalanta Sosnoff's total AUM, finding best ex and paying his best brokers is paramount even in the large cap stocks he trades. ARC, he said, allows him to maintain control of his order from beginning to end. If he were to use a wrap trading desk, the order could be dumped into an algorithm or internalized, and not executed in his best interests.

"Some of those brokers are good at trading the wrap portion but they deal with a lot of flow," Ng said, "and my trade could get lost in the shuffle." Or it can simply stay on a broker's desk, which only serves the broker's interest and they can earn on both sides of the trade - the institutional portion and retail wrap.

Also, Ng added, when a trade is out of his control a new element of risk is introduced into the equation - counterparty risk.

CAPIS uses Broadcort as its clearinghouse for all trades.

"We need to make sure our counterparties are solid," Ng said. "The settlement process needs to be seamless. I don't need to be chasing people to clear a trade. We have the fiduciary responsibility to explore ways to find best execution and this (ARC) is one of them."

And that's good news for CAPIS, Viani & Co and John Q. Public. And also for the retail order flow that is attached to Ng's institutional orders.

"Mom and pop need to get the best execution they can," Viani said. "What we've done is make it more efficient for the buyside to get it for them." ▪