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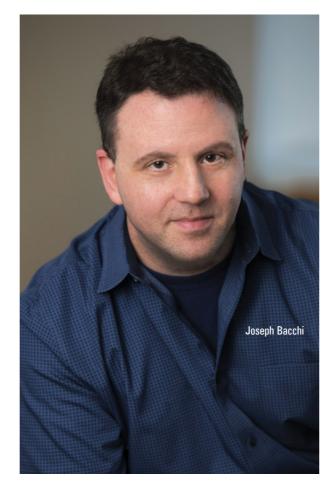
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TRADING TECHNOLOGIES

## Multi-Asset Trading – Broadening Horizons

By Joseph Bacchi, Head of Trading and Investment Operations, Acadian Asset Management

n years past, the concept of "expanding trading capabilities" meant bringing new techniques, such as algorithms, to trade existing products. But there is a new need, and a new opportunity, coming from investment managers. This is to find new. innovative and cost-effective ways to achieve conventional exposures using non-conventional instruments. The solution that an increasing number of firms have come to is Multi-Asset (M-A) trading.



#### Talent versus Technology

The decision to move toward a multi-asset trading environment requires a two-pronged approach, with both dimensions carrying equal weight. To focus on just one side of the equation opens an enterprise up to both execution and operational risks. That is why it is crucial for the Trader (Talent) and the Infrastructure (Technology) to strike the right balance. The M-A trader must act not only as the execution point but also as a consultant to the investment team and liaison to compliance and back-office

The ideal M-A trader profile is a blend of asset class generalist (focused on equity or fixed income, etc.) and investment product specialist, or "Genspec." The need is not only to determine the right strategy for the trade at hand by understanding the nuances of the markets and products being deployed but also to examine the intent of the trade and determine if there are better, more costeffective ways to achieve the desired exposure through non-traditional instruments.

A good M-A trader will also understand the structure of the trade, recognizing that the risks of improper settlement and/or clearing, carry a weight that is equal to choosing the right strategy for front-end execution. With the multitude of tradable products, understanding the mechanics as well as the application of a transaction not only allows for the proper trading strategies to be employed but also works to prevent economic or reputational impact beyond the front-end.

On the technology front, creating integrated systems

- · work seamlessly with a robust, stable Order Management System (OMS),
- systematically transmit trade details to relevant clearing and settlement systems,
- · incorporate pre/post trade compliance guidelines,
- · handle the communication and determination of margining and collateral requirements,
- and produce daily positioning reporting for expiry



management is daunting, but vital. The perils that exist downstream for exotic instruments, such as OTC and structured products, require an infrastructure that can both track and warehouse positions and risks.

Unfortunately, technological advances in confirmation, settlement, and reporting for all M-A traded products haven't yet met the demand. The fallback, again, is talent. Having individuals who understand the machinations of these products provide cover to the risks associated with the operational workflow, putting the back office and front office on par from a risk profile standpoint. As much as the overall industry has promoted and moved toward full systemic solutions, the human aspect is still a key component to a well-built M-A architecture.

#### Relationships Are Key

There is a very important consideration that in the world of compressed commissions and shrinking counterparty lists sometimes get lost in the shuffle. One that in some cases requires a change in perception and behavior that is critical to the successful implementation of any M-A effort. That often overlooked but vital link is relationships.

If you think of the progression into self-directed trading, you can understand how some on the buy side could develop the mindset that direct sell side contact—that human-to-human element—is ineffectual and unnecessary in today's marketplace. For the M-A trader, however, it is essential.

Under the premise that the client is the most important part of any trade, the concept of M-A trading should be built around the notion that no single execution strategy, no single venue, no single investment product, and no single relationship works for every trade in every market.

Evaluating and working effectively with counterparties takes some work. Capital, product depth, cross desk pollination, axes, market access and idea generation, are just some of the profile requirements that help to identify core competencies among brokers. Getting this right will lead to productive, accountable partnerships and ultimately

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#### **Daunting but Not Optional**

The combination of a heightened sense of execution quality coupled with an in depth knowledge of trade structuring positions the M-A trading enterprise as both harvester and defender. It is no easy endeavor to move from a focused trading environment to one that incorporates multiple investment products with varying clearing cycles and, in some cases, specific negotiated trade terms. But to remain competitive in an ever changing investment landscape, this may be just what is required. CM

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