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Failure for the Sake of Progress

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The majority of startups fail. A little googling told me that over 90% fail within three years. Despite the fact that the cost of starting a company has decreased considerably via cloud computing and open source technology, taking into account the personal sacrifice required to start a company and the high failure rate it's amazing that so many people think the path of an entrepreneur is a good one.

The prospects of creating the next unicorn are of course a major driver, but that's not really the reason people do it. Escaping big company bureaucracy and wearing a hoodie to work certainly is motivating too, but the real reason is passion for an idea. Passion that the world is missing something, and you have the idea that can help fill that void. This passion is what gives founders the confidence that they can beat the odds, and the world will see in their idea the opportunities that they saw when they first wrote it on a napkin.

The past few years have introduced us to several people and new companies with this passion for changing how bonds are traded. In every single meeting that I've been lucky enough to have with these innovators, I'm continuously impressed with their willingness to go against the grain and quite literally put their money where their mouth is. Most left high profile and high paying jobs with good health insurance to go off on their own and roll the dice. I'm fully self-aware that I do not have that level of risk taking in my blood.

But the sad fact is most of them will fail, or best case be acquired for a fraction of their original valuation. Trading desks don't like change, and building liquidity from a standing start has to be one of the hardest things to do in institutional FinTech. But before we start dismissing anyone as an unimportant flash in the pan, it's important to remember a few things.

First, incumbents were startups once too. Bloomberg, MarketAxess and Tradeweb were also just ideas a few decades back, but managed over decades to drive change in markets that people thought impossible when they first launched. They are now all market leaders in electronic trading, and handle between them the vast majority of electronically traded fixed income in the world. One of today's startups could very well become the incumbent of the future.

Second, startup trading venues make the markets better before they've ever done a single trade. The ideas they bring to the table and conversations they catalyze amongst market participants about the current market structure at a minimum make everyone step up their game, and occasional start full-scale disruption. Incumbent platforms are driven to innovate even faster than they already are, dealers reexamine their trading desk to ensure they're still servicing clients as efficiently as possible, and investors stop and wonder if what they're currently doing is the best path forward or there is in fact another way.

My point here is that we should never minimize the importance of new trading venues, regardless of whether they succeed, fail or end up somewhere in between. They're stirring the pot in a way that will only improve the markets. So even if some of them do ultimately fail, it will have been a failure for the sake of progress.

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