Control and Transparency

How the Buy Side Seeks to Manage Their Broker Network

January 24, 2017

Executive Summary:

Technology has long been a driving force in the evolution of trading and the transformation of the relationship between buy-side traders and their brokers. Electronic FIX communication in the early 2000s and the corresponding emergence of algorithmic trading strategies gave the buy side significantly greater control over their order flow. At the same time, regulatory and market pressures have led to a much greater focus on benchmarking, analytics and risk control.

As such, the role of a buy-side trader has also changed significantly. In addition to trading, the responsibilities of a buy-side trader today extend to full due diligence on each broker's algo suite, transaction cost analysis (TCA), venue analysis, market centers and their order types, managing research budgets, settlement oversight, and staffing.

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Methodology:

From October to December 2016, Greenwich Associates conducted 31 electronic and telephone interviews with head traders at buy-side trading firms in the United States and Europe to learn about the thought process around algorithmic trading. Respondents offered details on current satisfaction levels with algo product offerings, as well as criteria for determining order routing.

Data from the Greenwich Associates 2016 U.S. Equity Investors Study, comprising in-person and telephone interviews regarding U.S. equity investing with 320 U.S. equity traders between November 2015 and February 2016, and the 2015 and 2016 Trading Desk Optimization Studies, comprising interviews with 258 and 270 buy-side traders respectively, is also included in this report.

This independent research report was commissioned by Clearpool Group, LLC.

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