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What Makes Markets

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GUEST COMMENT

How Institutional Products Move to Mainstream

By **ADNANE CHARCHOUR**

Sputtering financial markets and increasingly demanding investors are triggering a shift in the financial services marketplace. Significant changes are already under way as today's global market structures mature and will take on a very different shape over the next few years. New growth opportunities have arisen from the turbulent markets, and much of the transformation is being fueled by the growing demand among retail investors for sophisticated investment products. While some may view these changes as a threat to the viability of the traditional brokerage model, others are seizing the opportunity to chart a new course.

For years, prominent institutional investors, including some of the largest Ivy League endowments, asset management firms and pension funds, have used a full range of asset classes and investment strategies to reduce volatility and increase portfolio returns. Their proven success, especially in down or sideways markets, has triggered a new wave of demands from retail investors for direct access to institutional-like investment products and strategies. This is evident in the increased demands from baby boomers and soon-to-be retirees searching for better ways to manage risk and generate income in all types of market conditions.

Retail brokerages and large institutions are working at full speed to offer a more diverse range of products and services that appeal to the masses. With the emergence of the Internet, complex financial products that previously existed only for the institutional investor are now becoming more easily accessible to the retail mass market. Sophisticated product solutions are being constructed and rolled out at a breakneck pace to address the needs of retail investors, particularly those entering retirement and the expanding mass affluent. Many firms are beginning to recognize that offering nontraditional investment products such as commodities, currencies, hedge fund strategies and even derivatives presents long-term opportunities to boost profits and to differentiate themselves in an already crowded marketplace.

To profit from this environment, firms must have the appropriate infrastructure and support models in place, and an overall strategy that creates a specialized experience for the online cus-



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tomers. Firms must be able to succeed in an environment where analysis and greater access are value creators, and where it's not seconds that count, but milliseconds. The fundamental task is to develop a clear plan of attack that allows firms to capitalize on this growing opportunity. Whatever a firm's size, seizing emerging growth opportunities will require deeper client relationships and a sharper focus on innovation and education.

Technological advances and the capacity for firms to remain flexible in how they integrate and deploy new technologies will continue to play a major role in determining who captures this lucrative segment of the market. The worlds of institutional and retail trading, for example, once decidedly separate entities, are beginning to move closer together in order to capitalize on this emerging opportunity. The ability for brokerage firms to process large volumes of transactions and manage varying levels of sophistication among investment products is driving the need for more innovative trading platforms. Furthermore, increased regulatory pressure, new trading technologies and corporate transparency requirements have contributed to the leveling of Wall Street's playing field. As a result, retail brokerage firms and their trading platforms will require far greater levels of sophistication, speed and flexibility just to stay afloat.

Automated Value Chain

Sophisticated online trading platforms have emerged that can

handle these unique institutional-like products with greater efficiency and at price points (since the volumes and frequency of the trades may not be the same as institutions') that make the opportunity attractive to retail brokerages. In addition, the Internet has allowed for technological innovations along other areas of the front, middle and back offices that offer efficiencies at key touch points such as account opening, order processing and money management.

Without question, online retail brokerage products will continue to expand, especially as investors become better educated and informed. Options trading has recently swung to the mainstream because pioneers like TradeKing and optionsXpress have been charting a new course for retail customers by making these contracts simpler to trade. Their intuitive tools, simplified approach to education, and reasonable trading costs make it easier for the retail investor to understand and manipulate these products. Online retail customers can get immediate access to strategies that allow them to hedge their investments or even generate a steady income stream—just like the professionals—all from the convenience of their personal computer.

Options trading is not the only area of growth. Foreign exchange and futures, once viewed as the riskiest of asset classes, are now quickly making their way to the desktops of the retail customer. Innovative companies such as Gain Capital Group are at the forefront of forex trading, where the retail market opportunity is likely to continue expanding. Similarly, EdgeTrade in the algorithmic trading marketplace and IBS Securities in com-

modities are also pioneers that are driving the shift of institutional products to the retail investor.

As is often the case, it is small- and medium-sized companies that tend to lead the way, setting new data standards, providing the necessary tools and education to make it easier for investors to make informed decisions, and developing the technologies that make expansion cost-effective enough to bring to the masses. What all these trailblazers have in common is a comprehensive, easy-to-use online resource for individuals new to the market or with limited experience to trade these new products. On their sites, retail investors can find educational content, training tools and market information, along with full-service trading capabilities.

Driven by transparency, speed and the demands of the retail investor, the industry has begun to embark on a major transformation that will substantially change the way the online retail customer manages money and trades. As a result, it will be vital for firms to review their current infrastructure and support models and look for better ways to deliver the more sophisticated investment products that have enjoyed such success in the institutional investment market. Ultimately, it will be up to retail brokerages to find new and innovative ways to capitalize on this growing opportunity and create value for their online customers. ■

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