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How Consolidated Feeds Add Smarts to Speed

As low latency becomes the standard, the ability to deliver “real smarts” through deeper analysis of broader, consolidated datasets becomes the differentiator, says Matthew Spedden, vice president of product and content at S&P Capital IQ.

Consumption patterns for real-time data have significantly changed post-financial crisis, leading firms to rethink their entire data strategies and budget allocations. Different profiles across an organization need access to different levels of market data at different times. Having universal access when not required can add an unnecessary financial burden.

Some users, such as market researchers, may need intra-day, or spot information. Others, such as private wealth managers, may need timely data, but not necessarily to sub-millisecond precision. Yet another group, algorithmic traders, need low- and ultra-low-latency data for executing trades in order to make markets, or to take advantage of price anomalies. We understand that one size certainly does not fit all, though in this article, we will focus on the needs of this last group of consumers.

Regulatory change has further encouraged innovation and technological advancement in the pursuit of a competitive edge. As speed becomes a given, the real advantage comes from being smart. You need to see things your competitors cannot, and better yet, spot opportunities before they do.

As most of today's algorithmic trading is purely a speed game, competitors are pursuing their ideal super-fast data gathering and trade execution systems to take advantage of tiny discrepancies in pricing. With trading volumes down and margins tighter than ever, we are truly in an “arms race” where the winner is the one who is the fastest, pure and simple. The faster the trading system—that is, the lower its latency (the amount of friction or delay in data transmission)—the greater the possibility it can execute a trade.

Only a few years ago, Tabb Group estimated that a five millisecond delay could

cost a broker one percent of its deal flow, which can translate to tens of millions of dollars (*The Value of a Millisecond: Finding the Optimal Speed of a Trading Infrastructure*, Tabb Group, April 2008). So, as the markets have become even faster in the five years since that report, who knows how much five milliseconds would cost today?

However, ever-more sophisticated trading systems—including those with co-location offerings, dark fiber infrastructures, and high throughput—will be diminish any competitive advantage brought on by speed. After all, the physical limitations of our universe mean that latency can never reach zero.

But as mentioned before, speed isn't the whole story. Another major component of trade execution is discovery—knowing just what to buy or sell, and when. To do that, you need an incredible level of intelligence on what is happening, and—depending on your strategy—what has happened previously in both correlated and tangential markets. Imagine being able to obtain data lightning-fast and incorporate past performance, historical data, back-testing results, research and other proprietary information to devise new strategies. In this case, technology becomes a catalyst for trading strategy innovation.

To serve this complex trading ecosystem, new systems must deliver a variety of data and content that can be seamlessly integrated into existing third-party and proprietary technologies that are the established backbone for all trading activities. Clearly the daily workflow on the trading floor is more fluid than ever, so it is important that market data vendors adjust to the new realities faced by this particular user profile's specific needs and expectations.

Consolidated datafeeds are not new:



data vendors and research firms have been pulling information from various sources and presenting them in one place for decades. But consolidated data, normalized to fit custom user interfaces and delivered instantly, is revolutionary. That said, there are challenges: Consolidated feeds typically aren't “direct” or fast enough, while direct feeds don't have the same levels of normalization, quality checks and value-add data delivered along with the raw price feed. So firms need to choose the right feed for their trading strategy. For example, trading via super-fast algorithms makes sense for discrete changes in equities and currencies, while wealth managers and fixed income traders have little need overall for high-speed trading.

This was one of the drivers behind S&P Capital IQ's recent wave of technology acquisitions. In 2012, we acquired the systematic trading solutions provider QuantHouse to provide traders with a truly fast market data feed. We are already expanding this business into a broader Real-Time Solutions group to leverage this state-of-the-art technology to deliver data at different speeds, as well as for the development of “event driven alerts,” utilizing content such as company data, key events and market opinion.

While you can still be the fastest by employing ultra-low latency and high-throughput strategies, there are increasingly streamlined opportunities to be the smartest by utilizing information from diverse sources, and analyzing information using proprietary in-house data and methods. Speed by itself can be an advantage, but with up-to-the-instant market data at your fingertips, you can put the smarts in ultra-high-speed trading. ■