



A Clearer Vision: MarketFactory Continues to Add Products September 2009

Typically the expression “having a view” when expressed in trading rooms mean a position on the market. Speak to a client of MarketFactory, however, and the phrase has a more literal meaning.

The firm launched in July 2008 with its first product, Whisperer, which is aimed, as James Sinclair, CEO and co-founder of the firm, terms it, at “giving people a better view of the market”.

At the time of launch there was degree of mystery over what exactly was being provided, as it often the case when new concepts enter the market. The bottom line of what Whisperer in particular offers is best put by Sinclair who says it enables customers to improve leading indicators such as fill ratios. “Other measures include slippage. The key point is that the benefit is measurable,” he says. “Whisperer allows clients to enhance their view of order books. It finds information that was either never published or has yet to arrive due to distance. For example, some platforms only publish data after specific time intervals, some are effectively opaque as they are far away or don’t publish every price point. They may provide the rate at which that 20mm, say, can be done but not an accurate distribution of the 20mm across the price points, and that is valuable information that is otherwise left on the table.”

The firm’s work with Whisperer, which operates within banks and trading desks, also identified another opportunity, one that is being exploited this year with the launch of Sherpa Connect. As the name suggests, this is a connectivity tool that sits at the trading venues, but it is much more than a feed handler, which Sinclair says is “just the beginning” in terms of tools to better deliver data to trading and pricing engines.

“Sherpa Connect is an adapter that provides ultra-low latency connectivity to platforms and exchanges,” he explains. “We created it because in the course of our analysis for Whisperer we realized that many of the third-party adapters available on the market to connect clients with exchanges and ECNs have been developed for the equities space and often fail to take account of the unique data and market structures of FX.

“This leads to market data and deal done information being misinterpreted or dropped, slippage and lost profits, and all because the trader does not have a better view of the market,” Sinclair continues. “One of the key issues missed by some adapters is that every venue –in spite of the use of FiX protocol- interacts differently with its trading clients. For example, venues report executed trades differently. Some are paid/given, others are exchange style and last traded. We are saying to banks: ‘Do you want your traders spending time interpolating these different styles of data reporting or do you want them focusing on trading strategies?’ That allows better use of valuable resources within the bank trading operation.”

With this in mind, Sinclair says that Sherpa Connect has been architected specifically for the FX market. The product enables connection to ECNs for market data receipt and order submission and provides interpretation of the data, translation into a flexible trading API, and optional connection to third-party middleware to ease integration into existing trading infrastructure. It can be deployed alongside Whisperer.

Measuring Success

MarketFactory says that the correct interpretation of apparently similar fields that have very different meanings across ECNs and exchanges is critical if a trading operation is not to miss out on opportunities through an incomplete or misunderstood picture of the market.

The key to what the firm is delivering is of course, measuring success in improved fills and profitability. “Sherpa Connect is about delivering a specific, measurable feed which can improve a client’s execution,” Sinclair points out. “This is an ongoing issue because execution times will improve each year as computers get faster. Ultimately you may have ‘speed of light’ issues, but the sheer distance involved means that markets like FX will always have a degree of opaqueness.

“Computers that are getting faster need more accurate, detailed and timely data to drive them,” he adds. “Algorithmic trading is driving FX volume growth, therefore better data can help build overall levels of market activity.”

It is a measure of MarketFactory’s confidence in its work that Sinclair also reveals that the firm is happy to make a pledge to prospective clients. “We have been saying to people quite publicly that if customers allow us to see the market data that actually reaches their trading models, we will take on the challenge to show information they are missing, improve it measurably and in the process get more reliable and actionable data to their models.”

As more and more people become interested in foreign exchange, one of the key drivers, especially given how many new entrants bring trading programs with them, will be connectivity and data. Looking ahead, Sinclair says MarketFactory is open to working with third party connectivity providers to provide the “entire e-FX piece” for new entrants.

“Our firm’s mission is all about how to generate data that improves execution,” he says. “It’s a constant process and we are always looking to add capabilities for our clients. In a small firm, focus is very much the key, so we seek to excel at our core competencies. We can deliver value for banks, trading firms and trading venues by virtue of giving the trader a cleaner view of the market and the more you know about a market, the more you are likely to make money in it.”

Source: Profit and Loss