

Gain An Advantage with Automated Trading

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ADVANTAGE FUTURES

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Background on Automated Trading

Michael O'Hara
SVP, Professional Trader Group
Advantage Futures



Background

Advantage Futures

- Founded in 2003
- Largest clearer of Eurodollar, Emini S&P, CBOT products
- Cleared over 1.7 billion contracts to-date
- Grown from 200 accounts to 1200 accounts
- Early focus on technology and e-trading
- Service electronic and open outcry clients
- 100 employees on staff



Background

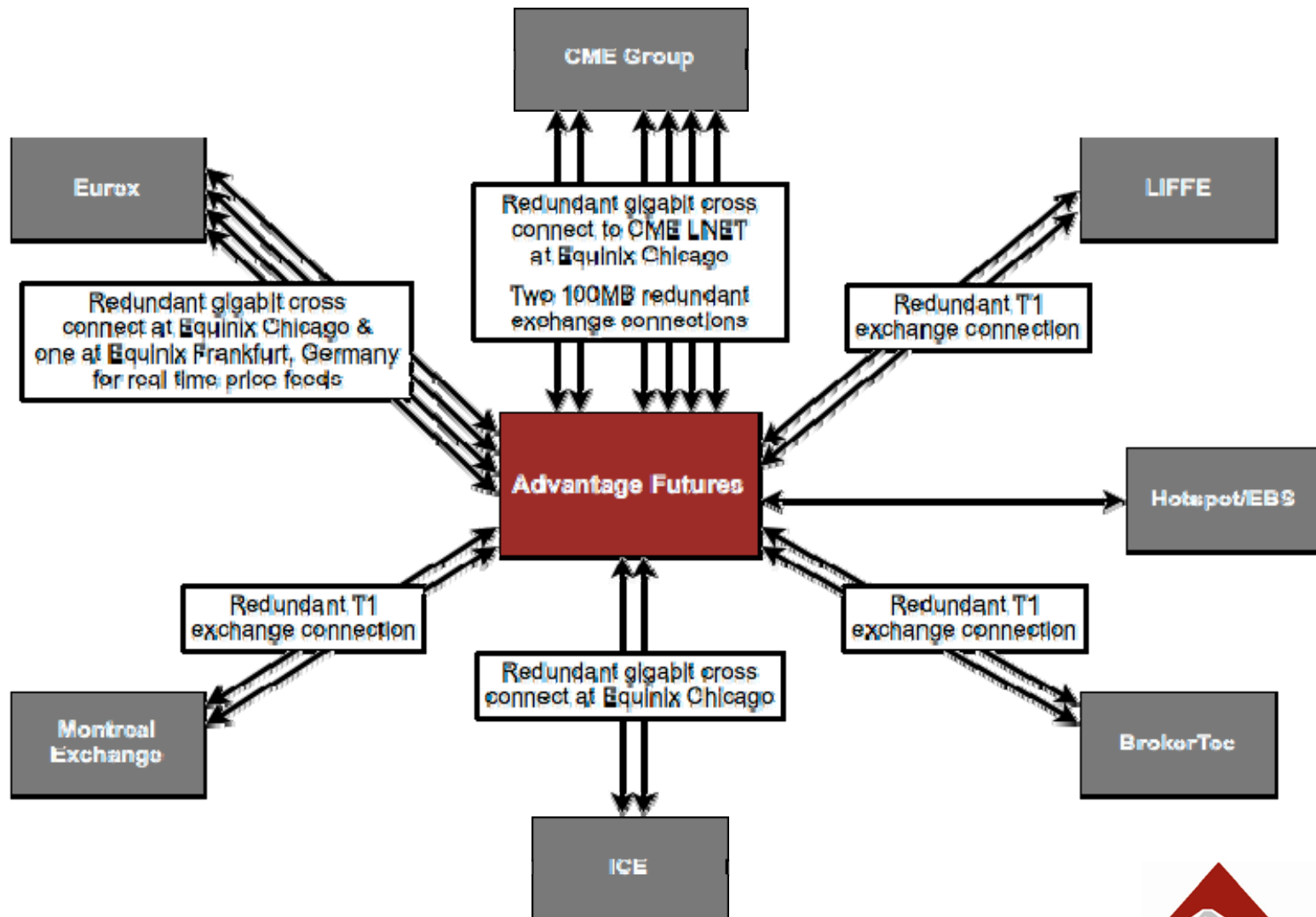
No prop trading within Advantage

Technology & Connectivity

Exchange Access

- ▶ CME Group
 - Chicago Board of Trade and
 - Chicago Mercantile Exchange
 - NYMEX / COMEX
- ▶ Liffe
- ▶ Eurex
- ▶ ICE U.S. (Intercontinental Exchange)
- ▶ ICE Europe
- ▶ KCBOT (Kansas City Board of Trade)
- ▶ MGEX (Minneapolis Grain Exchange)
- ▶ London Clearing House
- ▶ Montreal Exchange (Foreign approved participant)
- ▶ The Clearing Corporation
- ▶ Options Clearing Corp.
- ▶ CBOE (Chicago Board Options Exchange)
- ▶ CFE (CBOE Futures Exchange)
- ▶ FX (via Hotspot/Brokertec)
- ▶ HKFE (Hong Kong Futures Exchange)
- ▶ SGX (SIMEX-Singapore Exchange)
- ▶ ASX (Australian Securities Exchange)

Technology & Connectivity



Technology Support

Electronic Execution

- ▶ Multimillion dollar technology infrastructure
- ▶ Six data centers with multiple redundant direct exchange connections
- ▶ Continual load balancing of trade data to ensure optimal speed and reliability
- ▶ Access to several front-end platforms:
 - Trading Technologies
 - Patsystems Pro-Mark
 - Patsystems J-Trader
 - CQG Integrated Client
 - CQG Trader
 - NinjaTrader
 - Cunningham Trading Systems (CTS) T4
 - Cunningham Trading Systems (CTS) T4 Web
 - ORC Software
 - RTS Realtime Systems
 - GL Trade
 - OptionsCity
 - Focus Trader Pro
 - Strategy Runner
 - ProOpticus



Advantage Technology Department

- Hardware Specialists (Service Dell)
- Software Specialists
 - ✓ I5 Front-end choices
 - ✓ Proprietary software optimization
- Networking Specialists (Service Cisco)
 - ✓ NOC (Networking Operations Center)
 - ✓ Monitor connectivity
 - ✓ Monitor latency

Trading Profiles

- Market makers – provide bid/offer
 - ✓ Spread trading
 - ✓ Reversion to the mean

- Market taker/Position Trader
 - ✓ Momentum trading
 - ✓ Signal trader – technical analysis
 - ✓ Use of automation reduces human error
 - ✓ Ensures better execution

Client Types

- Current point and click trader or open outcry trader that is considering automation
 - ✓ “Off the shelf” automated software
- Current automated trader looking for better connectivity and execution
 - ✓ Server hosting/colocation
 - ✓ Point-to-point connectivity
- Current automated trader looking for better execution via software
 - ✓ FIX products from software vendors
 - ✓ Direct exchange certification
 - Full IT staff

Case Study of Automated Trading

John Richards
Founder
Webster Capital



Case Study of Automated Trading

Designated market maker status

- CME Eurodollars
- NYMEX Energies
- ICE WTI Crude

Spreaders

- Calendar
- Cross Product

Markets

- Rates: Eurodollar, Euribor, Short Sterling, Treasuries Cash & Futures
- Energies: Crude, RBOB, Heating Oil, Nat Gas, Electricity
- Agricultural: Soybeans, Corn, Wheat, Cocoa , Sugar

Case Study of Automated Trading

What Businesses Have We Been In

Format	Advantage	What changed?
Pit Trading	Information due to proximity	order flow begins migration to screens
Platform Arbitrage - Pit/Screen - Voice Broker/Screen	Information due to proximity Information due to relationships	Complete migration to the screen Complete migration to the screen
Screen trade - Manual - Auto	Market Feel Patience & continuous presence	Automats spread against other markets Hung orders chew up thin margins

Case Study of Automated Trading

How Do We Create **SUSTAINABLE** Advantage

Execution Infrastructure (PASSIVE)

- Software: fast, flexible and stable
- Colocate near exchange matching engines
 - Speed to market
 - 24/7 market access due to VPN capabilities
 - Day staff instead of night staff
 - Ability to source trading & research talent around the globe.

Case Study of Automated Trading

How Do We Create **SUSTAINABLE** Advantage

Analytics & Signal Generation (ACTIVE)

- Data Capture (past data)
- Analyze data: build “Apps” to look for things
 - effective moving average combinations
 - robust Bollinger Band time horizons
- Signal creation
 - monitor streaming data for “Set-ups”

Case Study of Automated Trading

Running Your Business

Implement the PASSIVE Advantages

- Software
- Colocation

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Running Your Business

Concentrate on MANAGING the ACTIVE Advantages

- Data Collection
- Data Analysis build “Apps” to look for things
- Signal Generation
 - Execution Challenges
 - Messaging
 - Avoiding getting hung
 - Managing hangs automatically

Case Study of Automated Trading

Running Your Business

Subtract Out All NON CORE Business Activities

- Accounting
- Technology
 - Hardware sourcing and maintenance
 - Telecom infrastructure and maintenance
 - Software development

Case Study of Automated Trading

Benefits of Colocation

Speed

- Proximity to exchange matching engines

Stability

- 24 hour security
- Cooling
- Power Redundancy

Case Study of Automated Trading

Benefits of Colocation

Scope

- Access from anywhere
 - Trade from home
 - Night markets
 - Trade from seasonal home
 - More time with family
 - Trade from vacation
 - Take longer vacations

Case Study of Automated Trading

Benefits of Colocation

Round the Clock Access

- Night people can be day people in another country
 - B Team can now be another A Team
- Ability to source talent/labor in locations far from your office
 - New York, Chicago, Silicon Valley, India, China, Switzerland

Technology Implementation

Ambaj Sharma
SVP, Technology Group
Advantage Futures



Types of Traders

- Point and Click Traders
- Automation/Grey box/Colocation
- Direct Market Access/Blackbox

Point and click traders

- **Equipment**
 - Hardware, configuration, troubleshooting
- **Software**
 - Front-end relationships, installation, configuration
- **Connectivity**
 - Internet or P2P private line
 - Price out private line's via multiple telco carriers, order lines, and configure equipment for the remote office
- **Maintenance**
 - Load balancing web boxes/remote hosts/WAN routers
 - Hardware/Software updates

Automation/Grey Box/Co-location

- **Equipment Configuration**
 - Customize hardware and software for optimal performance during peak market conditions
- **Software Configuration**
 - High percentage of Advantage clients choose Trading Technologies when it comes to auto-spreaders, auto-traders, and grey boxes (writing to XTAPI or TT Fix Adapter)
- **Colocation**
 - Co-locate trade logic and hardware as close to the matching engines as possible
 - Set up and deploy software on colocated servers
 - VPN/remote access to the servers
- **Other Considerations**
 - Power, cooling, network access, and VPN/remote access

Direct Market Access/Blackbox

- Blackbox trading has soared in popularity over last 3 years
Exponential growth in these types of clients at Advantage Futures
- Exchange certification
- Risk Modules
Criteria and certification
- Speed and efficiency of trading
Milliseconds and now microseconds matter
Hardware makes a difference
- Ongoing maintenance and reporting

Wrap-Up

Q&A

Trade Up to Advantage Futures



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