

Fox River Execution launches new ETF trading system

By Michael Mackenzie in New York

Fox River Execution, a US broker/dealer has launched a new algorithm designed for institutional investors to transact large Exchange Traded Fund orders at a better price and lower cost.

The so-called Fox spotlight program was developed in collaboration with research from iShares, the largest manager of ETF's.

An ETF is traded like a stock on an exchange and comprises assets such as stocks, bonds or commodities, that should trade at the same price as its underlying assets during a trading session. ETFs have grown rapidly in the past decade and iShares has more than 380 funds across the major asset classes that trade on 16 exchanges across the globe.

While some ETFs are very liquid, many are defined by low volumes and that can frustrate the desire among institutional investors to transact large orders.

Fox Spotlight is designed to mitigate price and trade size issues when it comes to buying or selling an ETF.

The program calculates at what price, a large deal can be transacted for an institutional investor, without causing market turmoil as arbitrageurs transact in the shares of companies that comprise the ETF.

For example, an order to buy 500,000 shares in an ETF may be possible at a price that is say 1 cent above the posted offer price for a smaller transaction even though there is no displayed offers at that price.

"With Fox Spotlight, traders can leverage insights into the true liquidity in ETFs to execute trades quickly and efficiently at an optimal price," said Ronald Santella, chief executive officer at Fox River Execution.

"The biggest issues include identify liquidity and minimizing market impact," said Leland Clemons, principal of iShares Capital Markets.

Fox has spent the past three months beta testing the model with up to half a dozen institutional investors.

"Fox Spotlight was created for low volume ETFs, but the feedback from customers is that it benefits most of their trades as even many liquid ETFs become mispriced during the trading day," said Mr Santella.

Terry Ransford, director of trading and technology at Northern Trust Securities said: "ETF trades previously considered too large for the market in relation to their average daily volume can now be executed with confidence, thanks to the total market impact view that Fox Spotlight offers."