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Diminishing Liquidity is Driving US Equities Firms to Invest in Analytics and Automation Technology, Says TABB in First of Six-Part 2019 Annual Benchmark Study

TABB Sees Rise in Conditional Orders, Block Trading and Testing of Algo Wheels; Expects Decrease in ITG Market Share

NEW YORK & LONDON, July 22, 2019 - While volatility and illiquidity in the U.S. equities markets have created obstacles to low-cost transacting, trading innovations being put in place in 2019 are now making liquidity more efficient and accessible to buy-side firms that continue to invest in technology, according to new research, "[IET 2019, Liquidity: Blocks, Algos, Analytics and Impact](#)," the first of a six-part US equities trading interview-based benchmark study that has been published annually by TABB Group for 15 years.



Between technological innovation, venue fragmentation, the transition from active to passive trading, as well as the restructuring of research, commissions are being severely squeezed, says [Larry Tabb](#), founder and research chairman who co-authored "[IET 2019](#)" with US equities analyst [Campbell Peters](#). "More trading responsibility is falling on the buy-side trader, and given the 2018 spike in volatility, liquidity has become increasingly difficult, not only to find, but even to piece together through the use of algorithms. This has become the most important buy-side trader accessory, outstripping sales traders and capital, occurring at the same time central risk books (CRBs) are

becoming an increasingly important tool when market liquidity isn't sufficient, especially for larger managers eager to efficiently aggregate liquidity, manage execution costs and analyze their execution quality in order to trade better."

For the 2019 Institutional Equity Trading (IET) interview-based study, Peters spoke with heads of trading at 92 buy-side firms in the first and second quarters of the year. In Part 1, in-depth interviews covered buy-side views on liquidity, as well as usage and trends pertaining to volatility, block trading, conditional orders, central risk books, algorithmic execution, algo wheels, TCA and performance measurement. Subsequent reports will focus on brokers, research unbundling, current views/trends affecting the desk, technology products and initiatives and market structure.

A sampling of key data includes:

- The spike in volatility in 2018 impacted liquidity for most buy-side firms with mixed views: 58% of small firms said impact was positive, 50% of large firms said impact was negative.
- Block trading accounts for 18% of overall buy-side trading flow; for large firms, 20% of total flow, up from 12% in 2017.

- Percentage of firms using conditionals increased from 54% to 74% from 2017 to 2018.
- 40% of firms are using, testing or evaluating algo wheels, pointing to higher usage in 2020.
- TABB projects ITG will lose market share for its TCA and Triton EMS products due to buying Virtu, as nearly a third of its TCA users say they plan to reduce their usage of the TCA platform.

Peters notes that although a broker's CRB offers an added block liquidity channel for buy-side traders, many prefer not to rely heavily on CRBs as a consistent source of liquidity. "Firms said that although CRBs offer blocks of shares, the liquidity will most likely be smaller blocks of blue-chip companies rather than large blocks of small- or mid-cap stocks. They also expect to continue using their broker's CRB current rate if not increase their usage into 2020.

Looking ahead, Tabb says that although larger firms still have access to preferential treatment from their brokers and medium firms have budgets to invest in sophisticated technology platforms, the smallest firms must weigh the cost of technology build with the benefits of reduced market impact. "For small firms, 2019 will prove to be a pivotal year for technology adoption, as conditionals, CRBs and algo wheels become increasingly available. Whether or not these firms will be able to use these tools effectively and stay profitable remains to be seen."

The 28-page [IET 2019 Part 1: Liquidity](#) with 22 exhibits is available for download by TABB equities clients and pre-qualified media at <https://research.tabbgroup.com/search/grid>. For more information or to purchase the report, write to info@tabbgroup.com.

About TABB Group

With offices in New York and London, TABB Group is the international research and consulting firm focused exclusively on capital markets, based on the interview-based, "first-person knowledge" research methodology developed by Larry Tabb. For more information, visit www.tabbgroup.com

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