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Gloating Time

With **Eliot Spitzer** shamed out of office, which of his victims is gloating the most?

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The Unkindest Cut

BOFA TO REBUILD EQUITY RESEARCH

Banc of America Securities is scrambling to rebuild its equity research department after the firm decided in January to cut staff by about 25% as part of overall cost cutting following a big hit it took from collateralized debt obligations. Fewer than 50 analysts remain from an initial 72 thanks to additional departures prompted by disappointing bonuses. The extent to which BofA now plans to rebuild is unclear, other than to get headcount up to a greater number than its original 25% reduction target. The firm reportedly plans to plug most of

(continued on page 11)

This One Goes To Eleven

CREDIT SUISSE VIES FOR TOP DARK POOL SLOT

Credit Suisse is vying with Goldman Sachs to make its internal crossing network the largest dark pool in terms of matched volume by year's end. It aims to surpass Goldman's Sigma X by dialing up execution speed and capacity, said **Dmitri Galiametdinov**, head of liquidity strategy at Advanced Execution Services, the electronic trading division of Credit Suisse.



(continued on page 12)

OPTIONS EXCHANGES TARGET ORDER CROSSING FOR GROWTH

NYSE Arca is planning to launch automated order crossing this year as the **Chicago Board Options Exchange** and the **International Securities Exchange** are pushing to speed up their systems to meet increasing demand from member firms to match large trades automatically. Unlike in the equities market, options traders aren't allowed to cross listed options trades in off-exchange networks and must complete them on exchanges. The order is exposed to the public, crossed and printed. The transactions make up more than 10% of the options

(continued on page 11)

Broker Beware

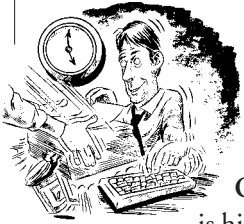
FINRA READIES SOFT DOLLAR ACTIONS

The **Financial Industry Regulatory Authority** is preparing to bring enforcement actions against brokerages for inadequate procedures and payments in soft dollar arrangements, according to *WSL* sister publication *Compliance Reporter*. The cases will bring brokers more directly into the soft dollar firing line than they have been.

James Shorris, FINRA executive director of enforcement, told delegates at **Institutional Investor Events'** Chief Compliance Officer Forum in New York Wednesday that the actions

(continued on page 11)

For breaking news and updates during the week, check www.wallstreetletter.com



At Press Time Indie Gears Up For Growth After Signing With Goldman

Quantitative Services Group, an independent research firm, is hiring a research director to grow its analyst team on the heels of signing an exclusive agreement with Goldman Sachs' Hudson Street Services last week. As part of the agreement, Goldman Sachs made an investment in QSG and will sell its research. In return, QSG provides research exclusively to Goldman Sachs. This deal will allow QSG to bring on about 10 more analysts this year and expand its coverage because it won't have to focus on hiring salespeople to expand its client base, said **Tim Sargent**, ceo of QSG.

The six-year-old firm also hired nine analysts last year, so the recent and projected growth has called for a team leader. "We were small enough that our analysts could just work side-by-side, but now that we've grown, we need someone with more overall industry expertise to lead the group," Sargent said. QSG has also wants to build up its distribution outside the U.S.

Credit Suisse AES To Hit Indonesia, India, Israel

Credit Suisse's algorithmic trading division, Advanced Execution Services, plans to connect to Indonesia, India and Israel by the third quarter. The firm started connecting to the most electronic markets first and is working on adding access to those on the next tier down, said **Dan Mathisson**, managing director. It also plans on rolling out New Zealand and Brazil access in the second and third quarter. Mathisson said he hopes that there will be connections in six continents by the end of the year, noting that it already has connections in five.

In the past year, the firm finished rolling out its services in major markets and is focusing on emerging markets, said Mathisson. The recent additions follow connections to Mexico, South Africa, Czech Republic, Greece, Hungary, Malaysia and Canada's TSX Venture Exchange. Credit Suisse, which provides access to 32 electronic markets, wants to connect to all 42 by 2009 (WSL, 8/17).

Arca To Launch Complex Options Book Next Month

NYSE Arca is planning to launch a complex order book for options next month. The exchange's project follows on the heels of similar launches and the **Chicago Board Options Exchange** and the **International Securities Exchange**. The platform will act as a facilitation mechanism and allow brokerages to execute up to four options legs and another equity leg as part of one order. Brokerages have been asking exchanges for functionality to execute complex orders on one platform so they could get faster execution and avoid missing the best price, which often happens when the brokerage attempts to execute each leg individually. "There is demand for this type of execution because orders can continue to interact rapidly to capitalize on price improvement," said **Ed Boyle**, v.p. of NYSE Arca Options.

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**Institutional
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INTELLIGENCE FIRST

Trading

Nasdaq's NYSE-Listed Share Drifts Down

The Nasdaq OMX Group lost market share in New York Stock Exchange-listed securities as volume at electronic communications networks continued to surge. Nasdaq executed 20.3% of all NYSE-listed volume, down from 21.1% it executed in January. The volume includes trades reported to its trade reporting facility (TRF) by off-exchange crossing venues. The NYSE executed 52.8% of listed volume, slightly down from 53.1% it garnered in January. It picked up another 4.9% through its TRF, up from 4.2% last month.

BATS Trading, the largest ECN, pushed its daily volume into the 600-700 million shares a day and competitor **DirectEdge** has followed in the more than 500 million range. BATS traded more than 800 million shares for two days last week. Volumes were split between NYSE and Nasdaq-listed shares, with BATS garnering a larger chunk in NYSE-listed stocks. Both ECNs recently introduced pricing programs designed to increase NYSE-listed market share. BATS captured 6.56% in listed market share in February, up from nearly no volume a year ago.

Still, Nasdaq lost some share in its own stocks. It executed 45.7% of total volume in February, down from 48.3% in January. The NYSE attracted 16%, down from 16.4%. It picked up another 9.3% through its TRF, up from 7.5% it captured in January. BATS executed 10.47% in Nasdaq-listed stocks.

BATS Trading To Open N.Y. Office



Randy Williams

BATS Trading, the largest electronic communications network that recently applied to become an exchange, will be opening a New York office next month. The company has rented a space at 14 Wall Street, across the street from the **New York Stock Exchange**, and will start moving in the first of the month, said **Randy**

Williams, v.p. of sales and communication. The Kansas City, Mo.-based company previously had two salespeople stationed in New York at a temporary space. The office will be staffed with eight to 10 salespeople and other personnel to better communicate with clients and New York-based investors such as **Deutsche Bank** and **J.P. Morgan**.

The ECN last month saw a boost in market share following the unexpectedly fast **Securities and Exchange Commission** review of its exchange application, which was filed this summer. The regulator posted the application for public comment Feb. 14, and so far, only one comment letter has been filed in support

of the application. No negative comments have been entered. Once the comment period ends April 7, the SEC will review the application and issue its recommendation. Williams said company management is hopeful that the exchange can launch operations this year. BATS has grown its overall market share to 8.19% in February since its launch in July 2006.

CBOE To Track Market Maker Participation

The **Chicago Board Options Exchange** has added a new feature tracking the percentage of series quoted by market makers in an effort to help them determine whether they should increase participation. Market makers are required to quote at least 60% of the series in their assigned class, but many do more than the minimum to increase the chances of executions against their quotes. However, tracking dozens of series can be cumbersome, especially as new series are added, so CBOE has decided to do the tracking using its systems, an official said. The reports are not visible to competitors and require a login to view the activity. They are not used for surveillance and will not be reviewed by regulatory staff. The data is available since the beginning of the year. "The exchange is making it easier to plan out allocation of resources," one trader said. Some brokerages have been cutting market making staff amid tighter penny pricing spreads and more automation, so market makers are frequently dealing with dozens more series than they had started out with years ago, he added.

IB Drives Adds Equity Options Voice Brokerage

Interactive Brokers is bulking up its equity options execution services with the recent addition of voice brokerage. The Greenwich, Conn.-based brokerage had already offered voice execution for index options blocks for the past year and has expanded into equities to support the influx in the number of accounts coming in from the traditional institutions, said **Kevin Fischer**, manager of Block Execution Services. Those funds have historically invested in equities but have recently moved into options as many charters were relaxed following double-digit volume increases. "Historically, most of our clients were hands-on electronic traders but some of the newer accounts prefer more customer service, want to bounce ideas off the desk or don't want to expose flow," Fischer said.

The desk fields client calls and contacts IB's extensive liquidity provider network to find matches and price improvement for the block orders. IB identifies blocks as orders

for more than 100 contracts, though most equity blocks crossing IB's block desk are 500-1,500 contracts and most index options blocks have in excess of 2,000 contracts. Fischer said that despite exchange efforts to facilitate block crossing, many contracts, particularly in index options, still have a large floor presence and execute better manually.

ISE Raises Cancellation Fees

The **International Securities Exchange** is planning to raise cancellation fees to better combat trade system stress. The exchange charges \$1.50 for each cancellation in excess of 500 it allows members to make every month and is now raising that fee to \$1.75 to better discourage excessive cancellations. Many algorithmic trading firms often end up using up their allowed orders because price movements in the underlying stock ripple through all the related options contracts, forcing some to pull orders out of the market. Nearly all options exchanges have cancellation fees in place and use the fees to cover the systems use. "The fee currently charged by the exchange is insufficient to offset the costs of administering and processing the large number of cancellations on a daily basis," ISE officials wrote in a related rule filing.

NeoNet To Increase Adaptive Algo Distribution



Greg Treacy

NeoNet Securities, a New York-based brokerage, is planning to increase distribution of its adaptive European order routing algorithms in the second and third quarter. The algos include volume-weighted average price, implementation shortfall and other participation strategies (WSL, 11/23). The firm will use the smart-routing algos to gather

historic execution information on the European markets and work on participation strategies.

Traders using the algos outside of NeoNet's trading desk are in the single digits, said Greg Treacy, director of U.S. sales. "We expect this to increase as the liquidity fragments and competition to the exchanges opens up," said Treacy. It will take time for these algos to be more effective in Europe, said Treacy, noting that **Instinet's Chi-X**, the central marketplace and a few dark pools are the only venue options at the moment. The March launch of **Project Turquoise**, a London-based crossing network being formed by seven investment banks, was delayed until September. Following the **Markets in Financial Instruments Directive**, scores of ATSs were expected, said Treacy, noting that many in the United States thought adaptive algos would be a lot more prevalent sooner.

"We will be doing active training with all clients showing them the parameters of the algos and the benefits in a more

complex marketplace," said Treacy, noting that this will be done on a client-by-client through the second and third quarter. The algos have been added to NeoNet Trader, the firm's front-end trading module, which is being rolled out on a client-by-client basis. The firm is also enhancing NeoNet Trader by incorporating more measurement statistics and also seeking out a third party to more readily examine and display the quality of its low latency. NeoNet plans to expand into markets in Asia, Eastern Europe and Latin America this year. It added Eurex futures to its platform last month.

MarketAxess Enters Into Trade Message Testing Biz

MarketAxess, a fixed-income multidealer trading platform, has entered into the business of testing trade messages for firms seeking to connect to different trading venues. MarketAxess has just acquired **Greenline Financial Technologies**, which provides integration, testing and management solutions for **Financial Information Exchange (FIX)** services. FIX is a communication protocol for trading financial instruments. While FIX has been very prevalent in the equities space, it has not been as widely used in fixed income, said **Stephen Davidson**, spokesman.

The acquisition will enable the firm to test, verify and monitor clients' FIX message traffic to ensure the reliability of their trade messaging for the various liquidity pools to which they are connected, said Davidson. The move by the firm complements its acquisition of **Trade West Systems** last year, which provides gateway adapters to connect OMSs and trading systems to fixed-income trading venues. Both efforts come in response to firms increasing reliance on electronic trading and their desire to connect to different liquidity pools.

PBOT To Build Index Futures



Dan Carrigan

The **Philadelphia Board Of Trade** will roll out multiple classes of futures on benchmark sector indexes over the next few months based on client demand. The exchange last week launched futures on the Phlx Oil Service Sector, Phlx Semiconductor Sector and the Phlx Housing Sector, and is in the process of talking to clients to determine which futures would launch next, said **Dan Carrigan**, v.p. new product development. Phlx also trades options on indexes that track banking, gaming, chemical and drug industries, defense and a number of other sectors. The introduction of the futures would allow brokerages to trade both instruments in a cross-margin account and save cash and time. The rollout was timed to coincide with the **Futures Industry Association** conference in



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Boca Raton, Fla., where the **Commodity Futures Trading Commission** has gathered international regulators to discuss futures regulation management, among other issues.

Pipeline Tweaks Algo Switching Engine

Pipeline Trading Systems, one of the largest crossing network operators, has tweaked its algorithmic trading selector to address problems with trading large lists of stocks. The Algorithmic Switching Engine helps traders execute smaller orders algorithmically while keeping the bulk in a block at Pipeline. The firm has built an analytic to detect when competing algorithms are pushing a stock price up, said **Henri Waelbroeck**, v.p and director of research. The analytic helps detect whether there is strong competition in a stock. The system will respond to strong competition in a stock by using only algorithms that do not post any limit orders, sending only small marketable orders to tag along with the order flow to make it easier for the stock to revert to more attractive prices, said Waelbroeck. Since the introduction of the analytics last month, the engine's average execution shortfall has dropped by 15%, despite an increase in the participation rate to 10.2% from 8.6%.

Zealous To Launch Algo On Research Portal



Michael Van Patten

Zealous Trading Group plans to launch a news weighted average price algorithm that can tell whether certain news will move a stock price. The algo is being developed as part of a portal that will be created to provide independent analysis and research for restricted and illiquid securities on its platform in the coming months. Zealous has signed a definitive agreement with **Global Access Holdings**, a research and market data tool provider to create the portal, known as FlashPoint. A four-person team, which includes individuals from Global Access, is working on FlashPoint.

The offering is powered by Global Access and brings in news about specific companies to its ATS, which provides a marketplace for global buyers and sellers of restricted, illiquid and alternative assets. The algo will rate how the stock price will be moved by the news, said **Michael Van Patten**, co-founder and global head of sales.

The portal will enhance liquidity because investors will be more likely to act on securities when they have more information, said Van Patten, noting that there is very little research coverage on illiquid stocks traded on the platform. When a firm underwrites a transaction and lists it on the

platform, ZATS will provide non-bias, standardized methodology for the transaction. The research can be compared with that provided by broker-dealers, he said.

Direct Edge Builds Up Tech Staff



Bill O'Brien

Direct Edge ECN is beefing up its technology staff to focus on handling escalating message traffic and to prepare for operation as an exchange. The ECN has boosted its staff to 33 from 20 since July, with most of the new hires concentrated in the technology area. The tech staff has been focusing on hardening infrastructure to handle message traffic. For example, it has re-architected its data feed to offer sub-millisecond latency.

Many investments being made in technology are in response to needs of customers, but also helps the ECN get in better shape to operate as an exchange, said **Bill O'Brien**, ceo. The firm plans to file its exchange applications in a few months. The tech staff has also been focused on developing new orders types, which were rolled out a couple weeks ago. The hidden order type allows clients to put in minimum quantities on the fills they receive, said O'Brien, noting that the capability would limit market impact. The dual immediate-or-cancel order type will allow an order to hit both of its platforms, EDGX and EDGA. Prior to the order type, clients would only be able to send an order to one of the two platforms, where it was then sent to other venues. Firms managing one single order often don't want to split that order up.

Some hires are also coming on board in sales and support, as the firm will be installing improved call center software in a couple months. The firm is also evaluating what opportunities may be in Canada, Europe, Australia and the Pacific Rim.

Brokerages Save \$140M On Dark Pool Execution



Larry Tabb

Executing orders through dark pools saved brokerages more than \$140 million in execution, clearing and settlement fees last year, according to a recent **TABB Group** study. Brokerages typically route orders to their internal or affiliated dark pools before routing to an exchange to save on transaction costs if an internal match is found. "We compared matching fees with clearing fees and made the assumption based on the fact that about 10% of order flow was executed in the dark pools last year," said **Larry Tabb**, founder and author of the study.

Execution fees at many exchanges are already as low as \$0.0030 per share, which translates to about \$2.04 million a day. By

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avoiding the exchanges whenever possible, brokerages spend about \$1.61 a day, TABB found. However, the brokerage would be losing out if it did not route to ECNs, which frequently have promotions and discounted prices; for example, **Direct Edge's** EDGA engine, which targets retail orders, charges nothing to execute. If the brokerage relied solely on ECNs, it would spend about \$320,000 a day, versus \$390,000 that would be spent on combined ECN and dark pool use. Executing solely through dark pools would cost about \$120,000 a day, which would increase slightly to \$130,000 if non-broker dark pools were used. "Fragmented markets will become the norm, and it's in the best interest of brokers to manage execution accordingly," Tabb said.

OptionsHouse Automates Conditional Triggers

OptionsHouse, a Chicago-based online options brokerage, has automated several execution strategies for retail investors and plans to continue expanding the suite. Until now, individuals could automatically execute market-on-close and open orders, but did not have access to advanced order tickets that would allow traders to insert their own parameters. The latest enhancements include triggers and trailing stops, which automatically send out orders to the market once certain conditions, such as a change in the underlying price, are met. "The tools are there to enable the trader to have a real job and leave orders in the market so he can continue trading," said **Peter Lawler**, chief operating officer. The next suite of enhancements will enable the traders to put in more sophisticated conditional triggers involving several instruments. Lawler said the suite is being expanded based on customer demand.

SEC Approves Eliminating Block Rule

The **Securities and Exchange Commission** agreed last week to eliminate a restriction by the **New York Stock Exchange** on liquidating block positions. The exchange has long prohibited firms from buying securities on a plus tick within the last 20 minutes of the trading day if they hold long positions to prevent them from pushing up the price. **Howard Kramer**, partner with **Schiff Hardin** in Washington, D.C., said eliminating the rule makes it a little easier to handle committing capital, noting that before a firm would have to worry about the price at which it transacted. In an electronic market prices change so rapidly that the notion of a "plus tick" and "minus tick" becomes obsolete, Kramer said.

The SEC received one comment letter—from the **Securities Industry and Financial Markets Association**—backing the NYSE's decision to rescind its rule on block positioning. NYSE had put in the rule years ago fearing manipulation. In its

proposed change, the NYSE explained that liquidation of a block position happens on multiple venues, which do not have the same requirements as the exchange.

Nasdaq To Track Aggressive Traders

The **Nasdaq** Stock Market is planning to track so-called pathfinders—traders that aggressively buy and sell securities—to help traders determine short-term sentiment. The data will be used to indicate whether the market is bullish or bearish, helping traders determine how they should adjust their positions, an official said. The International Securities Exchange already produces the ISEE Sentiment index, using long market positions to determine the direction of the options market.

Nasdaq will be calculating overall market movement in a specific period of time and identify traders who are consistently lengthening and shortening positions to identify the so-called pathfinders, though their identities will not be revealed to the market. Rather, the point of the service is to help traders catch when the sentiment toward the stock changes early, the official said. Traders will be given a free trial for 30 days once they sign up and will pay \$50 a month for the service thereafter. The Nasdaq has just applied to add the service with the **Securities and Exchange Commission** and will roll it out once the SEC signs off.

Research

Alternative Research Firm Launches In Calif.



Casey Ryan

A group of former sell-side analysts and portfolio managers last week launched **TickerMine**, a research company that provides raw data on the retail sector for stock-picking analysts on the buy-side and sell-side. **Casey Ryan**, a former analyst for **Nollenberger Capital Partners** and **Wells Fargo Securities** for seven years, is CEO. He said he saw a niche for TickerMine because analysts don't have the time or ability to call 40 stores a day to do a survey on a specific retail company or product and aggregate that information. "We provide the data and we leave the analysis up to the clients," Ryan said.

TickerMine, which had been in a beta version for the past two months, is currently posting about four news stories on its Web site each day based on the data the researchers collect. Ryan plans to up it to 40 stories a day by the end of this year. To reach that goal, the firm will hire several more analysts and writers throughout the year to at least double its current staff of five writers and three analysts. The company covers about 100 stocks, and had about 100 users in its beta version. Ryan said the firm is already considering syndicate

deals with online discount brokerages, such as **Charles Schwab**, where TickerMine would do custom, exclusive work for the firm to post on its Web site. "It is easier to work with online brokerages because they are already hip to the concept of what we do; they've done deals like this with similar consultancies," Ryan said. The firm is also planning an advancement that would allow clients to submit questions for a custom survey that TickerMine would conduct for an additional fee.

Soleil Securities Grows Analyst Network

Soleil Securities is growing its network of independent research firms with the hire of **Jeff Stein**, a veteran specialty retail analyst who launched coverage last week, and a partnership with **Dan Cummins** and his small software research shop, which is being finalized this week. Soleil is also working on forming two more research partnerships in the next month, which will bring the firm's number of indie partners to about 30. **Terry Gardner**, the firm's new chief operating officer, said he thinks there's a good chance Soleil will be boasting 50 research partners in the next year or so.

Gardner said the growth would be slow because the firm is being picky about which analysts it brings on. "We don't want it

to be like we're trying to stuff a bunch of research down a pipe to the buy-side, but more like we're putting it through a filter for them," he said. Cummins has been an analyst at **Banc of America Securities**, **UBS** and **Citigroup** for the past eight years, before leaving BofA last month. He covers enterprise software stocks. Stein came to Soleil from **Keybank Capital Markets**, where he had worked for 27 years. He is covering specialty retail stocks that are mostly small-cap companies.

Retail Brokerage

Stanford Group To Expand Southeast

Stanford Group's private client division is preparing for several new office openings in the Southeast and expanding in its current office buildings by the end of the year. The firm would like to reach 85% capacity before opening new or adding to its current offices, said **Jason Green**, president of the private client group. The new offices will potentially be in Tampa, Birmingham, Ala., and Raleigh, N.C. It currently has 19 offices, generally located in the Southeast. Stanford is at about 80% capacity right now and plans to reach 90% by the end of the year, which means hiring about 15 financial advisors.

In the last few weeks, the firm has hired three teams of



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Andrew J. Donohue, Director, Division of Investment Management, U.S. Securities and Exchange Commission

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financial advisors. **Roger Fuller** and **Ken Boylan** from **Wachovia Securities** were hired as a managing director and financial advisor, respectively, in Stanford's Charlotte office last week. **Keith Cox**, **Tiger Blackwell** and **Dania Tanguis** came over from **Premier Financial Management**, a Baton Rouge-based retirement planning and investment management firm. They are now in Stanford's Baton Rouge office. Stanford also bulked up its Atlanta office with **Michael Conrad**, **Michael Rollauer**, **Cara Gasses** and **Lily Hsieh** from **SunTrust Investment Services**. Conrad is the team's leading financial advisor, with Rollauer and Gasses as FAs and Hsieh as a client service associate.

Mass-Affluent Clients Lack Retirement Planning

Mass-affluent investors, who generally have \$150,000-\$1.5 million in investable assets, are missing out on the key retirement advice that the high-net-worth and ultra-HNW investors are getting, according to a report by **Celent**, a Boston-based consultancy. Financial planners who offer long-term retirement planning are targeting the high-net-worth investors because they can make more money in fees for those clients. "We've seen almost total abandonment of the mass affluent," said **Bob Ellis**, analyst and author of the report.

Most mass-affluent clients do their own research online and watch and read the media's reports to come up with investment

ideas, so when it comes to retirement planning, they try to do the same things. But retirement planning has gotten so complicated with the uncertainty of Social Security, longer life expectancies and more active retirees that investors are unable to adequately prepare on their own, Ellis said.

Bulge Brackets Lag On Fee Transparency

Major full-service firms are starting to increase their transparency regarding fees, but still lag far behind that of discount brokerages, a study by consultancy **Corporate Insight** found. Most discount brokerages, such as **E*Trade** or **TD Ameritrade**, make information on all of their fees easily accessible online, the study found. The study included about eight full-service firms and eight discount firms.

Morgan Stanley and **UBS** have put PDFs of brochures on some basic fees on their Web sites, which is a start, but the group as a whole needs to follow suite because the lack of transparency is frustrating to potential clients, said analyst **David Rosenberg**, author of the study. "It would benefit firms to be transparent because investors get wary if there's no fee information they can find online," Rosenberg said. He said the documents Morgan Stanley and UBS have posted act as a "teaser" because they are still pretty ambiguous, but all firms should at least do that so people can see what the most important fees are and compare firms on their own.

People & Firms

Wachovia Snags FA Teams From UBS, Morgan Stanley

Wachovia Securities has brought on a team of financial advisors from **UBS** with more than \$200 million in client assets and a **Morgan Stanley** pair of financial advisors who have more than \$155 million in client assets. The UBS group, with financial advisors **Charles Balis** and **David Lewittes**, started two weeks ago in Wachovia's Park Avenue office. **Scott Altman** and **Jacob Krecic**, from Morgan Stanley, started two weeks ago in Cleveland.

CBOE Names Former Arca Options Chief To Board

The **Chicago Board Options Exchange** has appointed **Jon Werts**, the former head of **NYSE Arca Options**, as the new off-floor, or industry, director. He joined **Merrill Lynch** as head of broker-dealer and electronic derivatives execution in August. Prior to that, he was v.p. of derivative products at **NYSE Arca** and served as v.p. of client and trading support at the **Pacific Exchange** since 2001. Prior to that, he has been an equity specialist. CBOE also appointed **Ben Londergan**, ceo of **Group One Trading**, as a floor

director. He had been running the market making firm for four years, and has been with the firm for a decade.

Nollenberger Boosts Advisory Board To 18

Nollenberger Capital Partners has grown its advisory board to 18 members with the latest hire of **Curtis Moe**, partner at **WillmerHale**. He works in the corporate practice group and has been with the firm since 2005. He is the first securities attorney on the boutique's advisory committee, which was created to steer the firm strategically.

Morgan Stanley Boasts New Million-Dollar Hires

Morgan Stanley recently hired financial advisors **Anthony Divalerio**, **Andrew Morse** and **Keith Stevens** in Conshohocken, Pa., from **UBS**. The team has a combined annual production of \$7.3 million and prior assets of about \$800 million. The firm also brought on six more financial advisors in Boulder, Colo., Coral Gables, Fla., and Knoxville, Tenn. All of them had trailing 12-months' productions ranging from about \$1.5 million to nearly \$2 million.

OPTIONS EXCHANGES

(continued from page 1)

market, but options traders say exchanges need to do more to promote growth and prevent the order flow from being executed over the counter.

Since penny pricing has been introduced, some traders have moved order flow over the counter because available size on the books has all but disappeared, several brokerage executives said. The exchanges are trying to keep order flow by letting customers facilitate larger blocks. “There’s been a lot of pressure from firms to make markets upstairs, but the question is whether market makers have the opportunity to participate,” said **Doug Engmann**, head of equities at **Newedge**, a derivatives brokerage formed by the merger of the brokerage subsidiaries of **Société Générale** and **Calyon**.

Traders say that in order to attract order flow, exchanges should speed up crossing. The CBOE and ISE have applied to reduce exposure time to one second from three seconds and Arca plans to use a similar model, but several traders say that’s not fast enough. Market makers and brokerages use automated platforms to respond to order flow in microseconds. **Ed Tilly**, vice chairman of the CBOE, said the exchange is trying to

shorten exposure further. “One second is a long time for electronic instruments, but we still favor exposure and price improvement that could come from it,” he said. **Ed Boyle**, v.p. of **NYSE Arca Options**, noted that most order crossing is still done on the floor, which can take up to 10 seconds. “The expansion into electronic crossing doesn’t mean that the trading floor goes away, but the growth of electronic trading makes it necessary,” he said. An ISE spokeswoman said exposure would be reduced further if necessary.

Brokerages say exchanges should do more to push the **Securities and Exchange Commission** to allow them to cross more order flow. The SEC allows only 40% of any limit order to be crossed and there are no plans to change that, a spokesman said.

“The exchanges have pushed the envelope on order crossing, but the SEC still puts limitations on how much can be crossed. There have been some efforts to increase the limits, but there’s been virtually no success,” said **Jon Werts**, managing director and head of broker-dealer and electronic derivatives execution at **Merrill Lynch**. **Jerome Johnson**, president of **3D Markets**, said the firm is developing a block crossing network that would route matched transactions to exchanges in an effort to boost size discovery.

—*Veronica Belitski*

FINRA READIES

(continued from page 1)

will be similar to the one FINRA filed in January against Houston-based **SMH Capital**. The new FINRA probes and potential actions against broker/dealers—and prime broker arrangements with hedge funds in particular—would signal a shift in the traditional focus of soft-dollar enforcement, which have mostly been **Securities and Exchange Commission** actions against investment advisers. “It’s a new look at an old problem,” said **Elizabeth Knoblock**, partner at **Mayer Brown**. “They’re now going after the other side of the coin.”

FINRA fined **SMH Capital** \$450,000 for allegedly failing to introduce adequate supervisory procedures and systems to address its prime brokerage and soft dollar services to hedge funds. Shorris said the action is the first in “probably a series” of such cases and that several investigations are underway. He declined to comment on the timing.

The failures in the **SMH** case led the firm into improper compensation arrangements with two of its brokers through which the brokers could share in commissions derived from fund trading, according to FINRA’s charges, which **SMH** settled without admitting or denying. Some of the violations FINRA is seeing now include soft dollar payments of personal expenses and to cover salaries, Shorris told the conference.

—*Mark Malyszko*

BOFA TO

(continued from page 1)

the gaps by promoting associates from within, which is cheaper than hiring from other firms.

A spokeswoman downplayed the turnabout. “We are committed to our equity research platform, which is a critical part of our equity strategy. This is a normal time of year for any investment bank to be looking to make strategic hires to augment their business,” she said, declining further comment.

BofA is waiting a few more weeks to see if any other analysts leave before starting to rebuild, so it can see where the biggest holes are. The bank slashed costs after it had more than \$5 billion in CDO-related writedowns in the fourth quarter.

Some of the analysts let go include **Robert Morris**, a six-time *Institutional Investor*-ranked oil and gas analyst; **John McDonald**, a large-cap bank analyst ranked by *II* last year, and other analysts it had recruited from rivals including **Lehman Brothers** and **Credit Suisse** over the past several years. “Banc of America spent years trying to prove to the Street that they were serious about equity research. Now it is going to take them years to rebuild what they knocked down,” a rival research director said.

BofA is mainly lacking coverage in the industrial and energy sectors. “The bankers are increasingly concerned that they can’t sell public offerings if there aren’t analysts covering the companies in those sectors,” said **Richard Lipstein**, recruiter with **Boyden**

Associates. Because of the Global Research Settlement, the bankers have no influence over the research, but still use it to help sell securities. BofA also cut out its media analyst team. But it's unlikely the firm will need to rebuild it because it let go of the capital markets people in that sector as well, he said. The firm also laid off analysts in the household products, personal care and cosmetics sectors.

—Annie Gasparro

CREDIT SUISSE

(continued from page 1)

Credit Suisse's CrossFinder has grown rapidly in the past few months, becoming the second largest dark pool by average daily matched volume in January, according to a **TABB Group** Liquidity Matrix. It was not even among the top five in December with matched market share of 8.2% and monthly matched average at 42 million shares. Sigma X had 18.7% matched market share with 96 million matched ADV for that month. CrossFinder has reached matched market share of 14.4% and monthly matched ADV of 92 million shares in February. Sigma X now has a matched market share of 19.8% and monthly matched ADV of 127 million shares.

Galiamedtinov said the ATS is boosting capacity by increasing the number of servers and making software more efficient and capable of processing more volume. The system can now handle four billion shares compared to 500 million at the beginning of the year. CrossFinder also put in a new infrastructure for the platform this quarter to give clients a microsecond response time

Sang Lee, founder of **Aite Group**, said speed alone will not help CrossFinder surpass Sigma X, noting that a combination of algos and connections to other execution venues will help drive volume to the dark pool. Credit Suisse is on the cutting edge

with its algos and was one of the first to connect with other execution venues, said Lee, noting that it is possible for it to become the largest by year's end.

Credit Suisse is also considering moving the matching engine from its New York data center to a data center it is building in Weehawken, N.J. The move should save clients four milliseconds in turnaround time. The data center, which will cost an estimated \$10 million, is expected to increase capacity by 50%. It will be in the same building as **NYSE Arca** and **BATS Trading**.

A Goldman spokesman refused to be drawn into the competition. "We remain focused on providing clients with high quality execution. Our leading market share in equity trading enables us to achieve this," said **Ed Canaday**.

—Sabrina Willmer

In the Bull's Eye



Wall Street On Spitzer: Not Too Big To Gloat; Justice Is Sweet!

Eliot Spitzer hasn't prosecuted Wall Street for a full year, but his embarrassing ouster was all anyone could talk about last week. While some traders and brokers *WSL* spoke with called the governor's call-girl shocker "sad," others went as far as to toast the end of the Spitzer era with a drink. The once-tough prosecutor has been the butt of jokes from traders and after-hours comedians all week.

A veteran floor trader told *WSL*, "We all went out to the pub after work to grab a beer and that's all you heard about. As you can imagine, not many fans here." Spitzer was responsible for the ouster of chairman **Dick Grasso**, who had been a staunch protector of the floor that has been all but wiped out since his departure. Another NYSE trader said, "I bet Grasso is laughing his a** off." Grasso couldn't be reached and his lawyer did not return calls.

The jokes piled on as well. "What's the best job in NYC? Working under Spitzer. Pays \$5,500 an hour," said one trading executive. A lawyer passed on a new parody of a **Princeton University** cheer: "Eliot Spitzer, he's our man, if he can't screw you, nobody can!" One lawyer summed it up best, saying "The biggest joke is Spitzer!"

Even brokers, who had only caught a smidgen of Spitzer's wrath from his prosecution of securities analysts, had something to say. On one broker forum, a post of the *New York Times* exposé with the title "Karma" proclaimed, "I can't believe I am the first to post this, but I am proud to do so." Another wrote, "I can't believe he paid \$5,500 for a hooker. For a \$100 bucks, he could have been in and out of the VIP room in **Scores**."

Quote Of The Week

"We don't want it to be like we're trying to stuff a bunch of research down a pipe to the buy-side, but more like we're putting it through a filter for them."—**Terry Gardner**, chief operating officer of **Soleil Securities**, on being picky about analysts the firm brings onto its platform (see story, page 9).

One Year Ago In Wall Street Letter

Floor-based firms at the **New York Stock Exchange** were setting up electronic trading desks upstairs to offer clients faster routing to competing markets and access to dark liquidity. Floor brokerages relied on the exchange to meet the Reg. NMS requirement of routing orders to protected markets with better prices. [The exchange still has not provided functionality on floor broker handhelds that would allow them to trade on other venues.]