

Technology Provides Options



FlexTrade sweetens the pot for its options-trading clients, both organically and via acquisition

As options trading has increased on a long-term basis, so has demand from the buy side and the sell side for state-of-the-art solutions to tackle the specific complexities inherent in derivatives trading.

It's a development that Vijay Kedia, president and chief executive of FlexTrade, noted several years ago.

"FlexTrade has been supporting options trading for at least eight years," said Kedia. "We got firmly involved with it as an asset class earlier than most other vendors," especially in the area of execution management systems, he said.

Founded in 1996, Great Neck, New York-based FlexTrade has a global client base spanning more than 175 buy- and sell-side firms, including investment banks, hedge funds, asset managers, commodity trading advisors and institutional brokers. FlexTrade's focus has branched out from primarily equities as was the case 17 years ago; its multi-asset platform handles FX, options and futures.

According to Kedia, the expansion into options and other derivatives trading was a natural evolution dictated by market demand. As equities trading became increasingly commoditized — with the attendant compacted profit margins — more market participants sought diversification through equity derivatives, which can have non-linear relationships with underlying stock.

Options traders need to be cognizant of first and second order derivatives, or Greeks, and need the skills to interpret and analyze various Greeks, their impact on profit and loss, as well as risk.



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VIJAY KEDIA, PRESIDENT AND CHIEF EXECUTIVE OF FLEXTRADE

Given that a single stock can have hundreds of options across multiple expiry dates and strikes, a change in underlying price, elapsed time or volatility skew can trigger a large chain of computations. Kedia said FlexTrade embraces this complexity and the firm has spent years developing the technology for accurate pricing models, volatility surface manipulations, and the speed demands of computations, all of which implies a significant barrier to entry for a prospective new provider.

FlexTrade's native offering in the options space is FlexOPT, which is a comprehensive trading system for buy- and sell-side market participants. FlexOPT enables proprietary as well as agency/facilitation trading, while providing direct access to all options exchanges, smart order routing, access to leading broker algorithms, fully customizable algorithms and options trading strategies tied to dispersion, volatility, and cross-asset.

In 2011 FlexTrade, added two products to its options repertoire: FlexOPT-RM for risk management and stress testing, and FlexOPT-OMM for order-driven market making.

"We developed FlexOPT-RM to enable traders to analyze risk by portfolios, sectors, traders, accounts or any level of aggregation/hierarchy," Kedia told Markets Media. "It provides the capability to 'slice and dice' portfolios by underlying, expiration, account, etc., and to compute in real-time volatility surfaces for risk and stress analysis."

FlexOPT-OMM is designed to provide order-driven market-making functionality for advanced options traders. With a comprehensive user interface to configure order strategies, the platform's pricing engine can be customized and loaded as a dynamic module.

Positions can be grouped and viewed at various levels, and a hierarchy of risk limits ensures that the trader can manage risk in real time," Kedia said. Those risk limits can be specified for position quantities and Greeks, such as Delta, Gamma and Vega.

The platform also provides the ability to load option chains based on underlying symbol, expiry date and strike price, as well as pre-load positions from the prior day.

In 2012, FlexTrade strengthened its options offering by acquiring software-provider Derivix, which was known for its all-in-one product for pricing, real-time analytics, portfolio risk management, and multi-broker electronic execution.

The acquisition provided FlexTrade's options-trading customers with a system that blends Derivix's capabilities in portfolio risk management, scenario analysis and execution management, with FlexTrade's multi-asset capabilities, including customizable algorithmic trading, dispersion trading, options market making, smart order routing and advanced real-time scanning.

"Derivix was a perfect fit for FlexTrade," said Kedia. "Not only were they focused solely on derivatives, their platform was used by a number of proprietary trading firms that were also using FlexOPT for a combined derivatives risk-management, scenario-analysis and OEMS solution."

With regard to plans in the options space, Kedia noted that the company is mindful of the "Flex" part of FlexTrade.

"We have always had the benefit of a demanding customer base, whether it's supporting complex options trading strategies or order-driven market making," Kedia said. "So continuing to invest and enhance the system in the way they need and want is always of paramount importance."