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INSIGHT AND AMUSEMENT FOR FINANCIAL SERVICES SALES AND MARKETING PROFESSIONALS

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TRENDS

Super freq.

High-frequency trading—often referred to as HFT—is a blanket term for computer-driven trading programs that now account for 60% or more of all stock market volume. Should we be afraid? We asked an expert.

“First of all, there’s no such thing as HFT,” says Bernard Donefer. “There are a number of different business models that use low-latency infrastructure, but you can’t just lump them all together as high-frequency trading and label them good or bad. You need to look at each business model individually and then ask, ‘does this benefit or hurt the market?’”

What makes Donefer an authority? First of all, he spent 35 years on Wall Street, most recently as the head of Capital Markets Systems at Fidelity Investments. Since retiring, he’s become Distinguished Lecturer and Associate Director of the Subotnick Financial Services Center at the Zicklin School at Baruch College, and Adjunct Associate Professor at the NYU Stern Graduate Business School.

Donefer has spent a long career studying the issue of automated trading, and as he points out, he no longer has a vested interest. “I’m not paid by anybody on either side. My job is just to explain things to the public,” he says. >>

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To hear the professor explain it, there are four main types of high-frequency trading that deserve scrutiny.

1. Algorithmic traders

“This is when traders on the buy side take a large order and cut it into many pieces to minimize the impact on the market. They’re not trying to hurt anybody, just lower their costs,” says Donefer.

Indeed, breaking large trades into smaller pieces is something traders have done for decades. Except instead of having to hand-write dozens (or hundreds) of individual order tickets, traders now have algorithmic trading programs that can do the job automatically.

2. Automated market makers

A market maker’s job is to hold securities in inventory and display bid and ask prices to the market so that investors can find a buyer or seller for whatever they’re hoping to buy or sell. The market makers profit by pocketing the spread between the bid price and the ask price.

“Some fear that quantitative trading is unfair and could spiral out of control.”

“Fifteen years ago, over-the-counter market makers were human beings, and they kept the spreads wide,” says Donefer. “One study showed they were making 25 cents per share on average for every trade. In 1997, the NASDAQ paid a \$1 billion settlement for purposely keeping the spreads too wide.”

By contrast, today’s automated market makers have brought average spreads down to about a penny, and created liquidity for thousands of securities that

were previously difficult to cost-effectively trade. Donefer sees automated market makers as a good thing—providing better liquidity and reducing conflicts of interest with investors.

3. Quants

Quantitative traders—or “quants”—use high-speed technology to exploit anomalies in the market. “One example is the pairs trade,” says Donefer. “Let’s say two pharmaceutical stocks normally trade closely together, then, all of a sudden, one jumps in price. When the computer sees this anomaly, it might short the stock that jumped and go long the other one, betting that the prices will re-converge. If this strategy works 60% of the time, the quant will make lots of money. If it works 40% of the time, he can become a college professor,” he chuckles.

Because these transactions can happen very quickly—perhaps hundreds of trades in a single second—some fear that quantitative trading is unfair and could spiral out of control.

Donefer disagrees: “Quants are using public data and are not violating a fiduciary duty to anyone else. They invest in low-latency architecture and need lots of brains to win. This is stuff we’ve always done, but it’s just faster with computers.”

4. Outlaws

The final group on Donefer’s list is the so-called outlaws—parties who are accused of using low-latency trading for dirty tricks such as “quote-stuffing” to bog down the market with bogus activity, and “spoofing,” where orders are entered with no expectation of being executed, just to convince others of widespread interest in a security.

“Show me someone using an improper technique to manipulate the market, and I say we should fine them and send them to jail,” says Donefer. “So far, I hear lots of talk and conspiracy theories, but I have yet to see any evidence. Just because there’s a gun on the table does not mean a murder has been committed.”

While Donefer concedes that high-frequency trading can cause problems in the market, he believes these problems are benign in nature, such as a bug in the software, a human error, or a delay or flaw in the market data. He also believes these problems will be identified and addressed with new protocols as they arise—much as the airline industry has succeeded in increasing safety year after year.

Ultimately, Donefer believes high-frequency trading is here to stay, and a good thing for investors of all stripes.

“You’re getting faster execution and smaller spreads than ever before. Costs of trading are lower than they’ve ever been. And if, like most investors, your goal is to hold a stock for days, weeks, months, or years, why do you care that a market maker made one-tenth of a penny on your trade?”

Our view

New technologies always introduce new challenges—whether it’s dealing with workers displaced by automated assembly lines, or figuring out how to protect privacy in the Internet age. While there are bound to be missteps along the way, we are hopeful that regulatory regimes will eventually catch up with high-frequency trading and guide its safe assimilation in capital markets.

Is high-frequency trading a threat to capital markets? [Take our latest poll.](#)



CREATIVE: VIDEO FEATURE

Five ways to make your annual report better

How to make your next annual report more informative, persuasive, and cost effective, with our Art Director, Nadine Kühlkamp.

[Click to watch video](#)



PERSPECTIVE

Say what?

Martin Luther King, Jr. and John F. Kennedy are both revered as inspiring orators. But JFK had one thing MLK didn't: a brilliant speechwriter.

Ted Sorensen was, by all accounts, an accomplished lawyer. But he was much better known as President John F. Kennedy's special counsel, adviser, and speechwriter.

Sorensen joined Senator Kennedy's staff in 1952, helped him win the presidency in 1960, and remained at his side until his tragic death three years later. In addition to the innumerable speeches he wrote over those years, he is also credited with penning the letter to Soviet Premier Nikita Khrushchev that historians say averted nuclear annihilation.

Here's what the 80-year-old Sorensen said in 2008 when asked by bigthink.com to describe working with JFK:

"There was no mystery to it. He and I had worked together at the end for 11 years. Starting in the fall of 1956, we spent three, four years traveling the country together, just the two of us, to every one of the 50 states. And you get to know somebody, and his way of thinking, and his way of speaking pretty well when you do it day after day in all 50 states for three years or more. And so the ideas were his. The policies were his. The judgments and decisions were his. And when he expressed those decisions in the White House, it was not difficult for me, having participated in the meeting, to go a few steps down that hall to my office and try to reflect in words on paper the first draft of the decision he wanted to convey to the public.

"I'm happy to say that I usually submitted it to the President's Chief Domestic Advisor. That was me. And I submitted it to the President's Senior Policy Advisor and senior staff member, but that also was me. So, being immodest about it, basically, I only had to submit it to John F. Kennedy knowing that the policy expressed in the paper was his policy. And I wanted him to be comfortable with the words. And he changed that paper sometimes a little bit, sometimes a lot. Sometimes he would reject an entire paragraph. If I liked it, I might find the speech a couple of weeks later and I would try to sneak it back in. Sometimes he would recognize it when I did."

So did Sorensen write the legendary turn of phrase "Ask not what your country can do for you, ask what you can do for your country"? He firmly states that, counter to what many authors and journalists have claimed, that one was "written by Kennedy himself."

Our view

Many great political orators owe a debt to their speechwriters—from Ronald Reagan and Peggy Noonan, to Barack Obama and Jon Favreau. Having a great idea and knowing how to express it well are two different things. As we often see in the world of marketing, great things can happen when experts at each discipline work together.

Top 10 speeches

These speeches are from an index of the 100 most significant American political speeches of the 20th century based on rankings by 137 leading scholars of American public address.



1. **Martin Luther King, Jr.**
"I Have a Dream"
2. **John F. Kennedy**
Inaugural address
3. **Franklin D. Roosevelt**
First inaugural address
4. **Franklin D. Roosevelt**
"Pearl Harbour Address to the Nation"
5. **Barbara C. Jordan**
1976 DNC Keynote Address
6. **Richard M. Nixon**
"Checkers"
7. **Malcolm X**
"The Ballot or the Bullet"
8. **Ronald Reagan**
Shuttle Challenger disaster address
9. **John F. Kennedy**
Houston Ministerial Association speech
10. **Lyndon B. Johnson**
"We Shall Overcome"

Source: www.americanrhetoric.com

DIGEST

Quick hits on money and marketing

Bestselling books on investing
According to Amazon.com as at Oct. 12, 2010



1. *Retirementology: Rethinking the American Dream in a New Economy*
Gregory B. Salsbury
2. *Trend Following (Updated Edition): Learn to Make Millions in Up or Down Markets*
Michael Covel
3. *How To Win Friends and Influence People*
Dale Carnegie
4. *Buying at the Point of Maximum Pessimism: Six Value Investing Trends from China to Oil to Agriculture*
Scott Phillips and Lauren Templeton
5. *The Art of Money Getting*
P.T. Barnum
6. *33 Million People in the Room: How to Create, Influence, and Run a Successful Business with Social Networking*
Juliette Powell
7. *Liar's Poker*
Michael Lewis
8. *The Intelligent Investor: The Definitive Book on Value Investing. A Book of Practical Counsel (Revised Edition)*
Benjamin Graham, Jason Zweig, and Warren E. Buffett
9. *Think and Grow Rich*
Napoleon Hill
10. *Rich Dad Poor Dad: What the Rich Teach Their Kids About Money-That the Poor and the Middle Class Do Not!*
Robert T. Kiyosaki and Sharon L. Lechter



Pay what you can-dwich

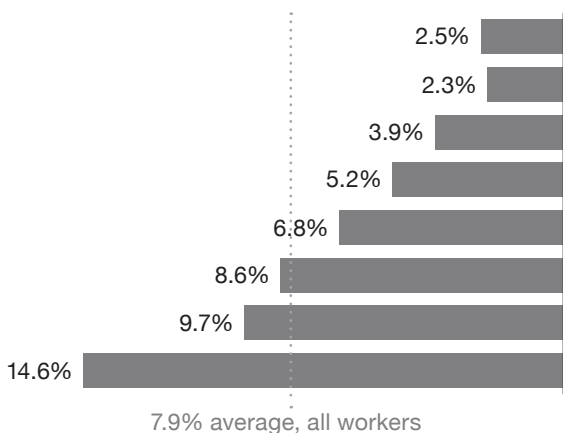
Time magazine reports that customers who walk into the Saint Louis Bread Co. in Clayton, Missouri, looking for a sandwich are greeted by a sign that says:

"We encourage those with the means to leave the requested amount or more if you're able, and we encourage those with a real need to take a discount."

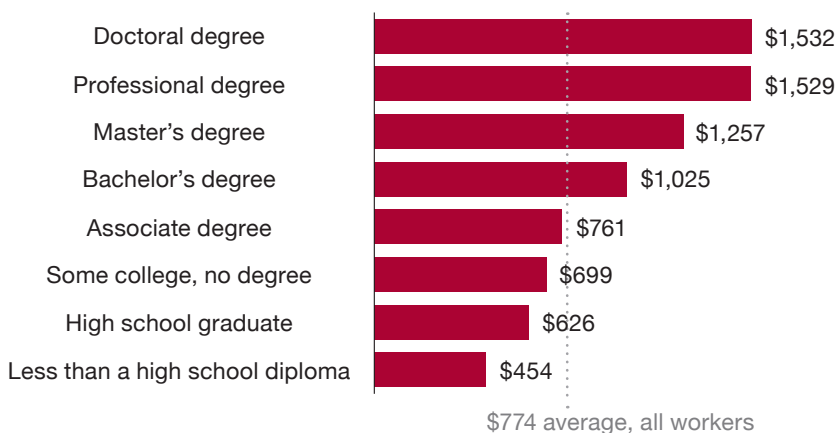
The shop—part of a national chain with 1,400 locations—is hoping that enough generous customers will donate money above and beyond the menu's "requested amount" to subsidize discounted meals for those who are struggling in the recession.

Stay in school, kids

Unemployment rate in 2009



Median weekly earnings in 2009



Source: U.S. Bureau of Labor Statistics, Current Population Survey



UPDATE

Industry and agency news

Wickware featured in *Emerging Manager Monthly*

In case you missed it, Creative Director Michael Wickware and Account Director Cara Crosetti were featured in the September cover story of *Emerging Manager Monthly*—a publication aimed at small and emerging investment managers. “The story focused on the web marketing industry survey and best practices highlighted in our recent white paper, *From Dusty Old Brochure to Dynamic Online Marketing Tool*. You can download the Executive Summary [here](#).

Making math interesting

On September 30, a group of financial services professionals attended a PAICR-sponsored lunch ‘n’ learn at the Toronto offices of Wickware Communications. Drawing from personal experience, portfolio manager Jeff Brown of 18 Asset Management shared his insights into how he blends art and science together to create presentations that captivate audiences—even when the subject matter is quantitative investing. If you would like to attend future PAICR events, contact us or visit www.paicr.com today.

Good times here again?

A June 29 report by MyBankTracker says Wall Street added 6,800 new jobs between March and May of this year, and that many institutions are prepared to pay a premium for talent. The report cited statistics from the Department of Labor in New York state. It also noted that large firms such as Bank of America, Citigroup, JP Morgan Chase, Goldman Sachs and Morgan Stanley all expanded their workforces in the first quarter of 2010.



Introducing Russell Vance, Digital Director

Russell Vance brings nearly a decade of experience designing and developing award-winning interactive campaigns to the Wickware team. With a background in design, Russell brings superior aesthetic and analytical talent to our clients’ digital projects—from websites and online advertising to social media initiatives.

When he’s not in front of his computer, Russell is... probably still in front of his computer, building his legend as one of Call of Duty’s most feared players or working on his screenplay about zombie pirates.

WISE WORDS “Next to doing the right thing, the most important thing is to let people know you are doing the right thing.”

John D. Rockefeller

We are the financial industry’s creative partners

Wickware Communications helps financial services firms earn a better Return on Creative™ through superior branding, writing, design, print, and digital marketing solutions.

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