Drivers in Trading

Transformation: Competition

When it comes to the strength of a firm’s trading technology, it is crucial to invest now more than ever. Cost efficiency, adaptability to the ever-changing regulatory landscape, and the complexity of a firm’s current technology stack have all proven to be highly impactful in the fight to remain competitive. With the incessant pressure to innovate, experts in technology, compliance, and trading can be left struggling to plan their next move.

In a joint study, Nasdaq and Celent aimed to uncover key drivers for trading transformation and how firms are looking to adapt and succeed in a time of accelerating change. The study surveyed over 50 senior trading leaders across asset classes, geographies and firm types to uncover the challenges and opportunities driving today’s trading landscape.

With 82% of senior trading leaders citing that they view technology as a key competitive differentiator, it is clear that the ability to differentiate and attract new clients is top of mind.
It comes as no surprise that one of the key drivers for trading transformation uncovered in the study was competition. In this report, trading leaders noted that their **greatest challenge** in the realm of trading technology is the cost of remaining competitive followed closely by the complexity of their existing technology stack. **Across all asset classes, 82% of respondents said that technology was a key competitive differentiator.** As shown in Figure 2, trading heads were outsourcing, partnering, and buying 55% of the time, versus the traditional build course.

As shown below, **33%** of respondents indicated that their key technology concern is the cost of remaining competitive, followed by **27%** concerned with the complexity of existing trading technology stack. Twenty percent of respondents were equally concerned with executing on their plans and defining the future course of their technology investment. Survey participants were largely positive about the value of trading technology investments, with **55%** responding that they definitely get value from their investments, **35%** saying they probably get value, and **10%** saying they do not get value.
Regulatory, competitive and technology shifts in recent years have altered the way in which firms interact with each other, driving new business and service models for broker-dealers, investment banks, and trading firms. Thus, the traditional roles of buy and sell-side infrastructure and software providers have changed to adapt to shifts in market structure. As a result, the industry has gained ground in many aspects of price and market making, therefore increasing competitive drivers.

In addition, as trading becomes increasingly digital, data quantities rise substantially. This in turn shifts competition by allowing more sophisticated firms with lighter regulatory responsibilities to provide liquidity and services that once were the domain of only the dealing community. While markets are greatly different, there is a convergence in many respects, as more electronic trading creates more data.

Investment in technology is necessary to the success of a business. It is equally important to plan methodically and invest strategically. Competition drives markets, and the ability to differentiate is fundamental to attracting and maintaining clients.

In exploring how trading leaders think about technology, one-third of respondents report the cost of remaining competitive as their largest concern. Firms must weigh the upfront costs of implementing a more agile technology platform against the long-term costs of remaining stagnant.

Nasdaq’s Execution Platform has proven to be a key differentiator for firms looking to gain a competitive edge in an industry that continues to evolve. After implementing Nasdaq’s Execution Platform, Goldman Sachs was able to increase their market share ranking for their ATS, Sigma X2, from #16 to #4 overall.

Investing in trading technology has become the cost of admission for modern firms looking to remain competitive. It is no longer financially viable to continue relying on antiquated infrastructure. Nasdaq’s Execution Platform provides faster trade matching, low latency, and strength during periods of high market volatility that is second to none. From Tier 1 Banks to Regional Brokers to Proprietary Trading firms, Nasdaq’s Execution Platform has proven to be an essential point of differentiation.