

Advanced Markets: DMA is our DNA, interview with CEO Anthony Brocco

by Michael Greenberg

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Advanced Markets focuses on direct market access or DMA. Can you explain a bit what DMA is and what is your DMA offering?

Direct market access is exactly what it sounds like. We provide traders with direct, low latency access to spot FX liquidity provided by 10 bank market makers. The rates you see on the screen are the ones you are going to trade on more than 99 per cent of the time when you trade on an Advanced Markets platform. It's a simple model in its pure form and that's what we provide.

How does it differ from an ECN?

ECNs have some of the same attributes as DMA in terms of transparency, anonymity and low latency trade executions. However, the prevalence of high frequency traders on ECNs means banks don't price them as tightly as they do our DMA platforms. Both models are useful to traders seeking clean, low latency fills, but we've optimized our DMA model for traders seeking consistent, interbank liquidity.

What are your monthly volumes?

We are expecting volumes of 100 yards per month within the next 6 months as we are about to complete an integration with several large firms thus more than doubling our current volume.

Who is the target market?

Advanced Markets target market is two-fold. Our largest business is providing liquidity and technology solutions for brokers and banks that offer highly competitive trading platforms to individual traders and smaller fund manager around the globe. In this sector, we recently launched UltiMT, a technology, liquidity and credit solution for brokers and banks that offer MetaTrader platforms for their trading customers.

In addition to wholesale brokers and banks, we take experienced, well capitalized traders as direct clients. These "professional" traders include former bank traders as well as fund managers who recognize the value of our DMA liquidity model, robust market data and low latency trading platforms.

Who are your main competitors?

On the one hand, I think there's nobody else out there that offers what we do. On the other, every large broker that offers white label solutions is probably a competitor in one sense or another.

Retail brokers are offering hybrid trade execution e.g. DD and ECN, what is the future of DD?

The deal desk model for retail FX trading never made sense to me. In institutional FX, there's an incentive for banks to provide high quality trade executions and related services to institutional clients. The incentive is more of the institutional client's flow and information, which can be valuable depending on the client. In retail, that relationship dynamic doesn't exist.

Ironically, when bank market makers see the quality of the flows they're getting from us, they do what they can to tighten up their bid/offer spreads to get more of it. So in a way, Advanced Markets is the proxy institutional client, which benefits our clients by enhancing the liquidity on our DMA platforms.

Will you ever introduce DD? Some brokers have started with ECN/STP but rolled back to offering DD as well while others take pride by being DD in the first place.

I don't ever see that happening in our spot FX trading business. It can be more profitable, which is why brokers are attracted to the deal desk model. However, we think our DMA model is much more beneficial to everyone from bank market makers to brokers to the end-user traders. We have an informal mantra at the company "DMA is our DNA." With that in mind, direct dealing is an extreme outlier.



Anthony Brocco Advanced Markets CEO

Do you face limitations being based in US post leverage/Dodd-Frank?

The U.S. has a rigorous regulatory structure for FX brokers, but I don't think Dodd-Frank will limit our business activities in a meaningful way.

Is there room for new products in spot FX?

There's lots of room for innovation in the spot FX market. Look at the tremendous changes in the institutional FX market brought about by electronic trading with respect to liquidity, market access, transparency, market data, credit structures and best execution. We see a lot of room for growth and innovation in adapting those changes for the wholesale and individual trader markets we serve.

Is there a room for innovation in DMA?

We are constantly refining our DMA model to improve liquidity, reduce latency and expand capacity. However, DMA is a simple, powerful paradigm and mainly we try to keep the model as clean as possible.

What are your technological advantages?

We have two major technological advantages. The first is a very close working relationship with Fortex, which has built our entire technology platform. We share the same views about what makes a trading solution great, low latency, operational stability and flexibility to enable clients to optimize the systems to support their market models and business approaches.

The second is the simplicity of our DMA model which essentially speeds orders to the best bid or offer from a bank market maker and processes the trade back to the trader and his or her broker. In addition to low latency trade processing, the simplicity of our DMA model is seen in the stability of our technology platforms. For example, our new UltiMT MetaTrader broker solution has been tested in live trading by a number of brokers and it has not experienced a single out trade or moment of downtime in over 10 months of continuous operation.

These two advantages yield significant benefits for clients in terms of operational stability, low latency trade executions, robust liquidity and real-time, multibank market data. All of these advantages benefit the trader customers of brokers trading using Advanced Markets' solutions.

Unlike many banks/DMA brokers you hold an RFED license which is essentially a license that allows you to accept retail clients. It seems though that you position yourself as a more institutional type of a broker – why do you need the RFED license then? Perhaps it's wiser to use the \$20m+ for some other activities?

You raise an interesting point. It's correct that we do not accept the type of small, inexperienced customers that the \$20 million capital requirement is designed to protect.

However, we do have experienced traders as direct clients, so we follow all regulations and capital requirements. Also, we support money managers and CTAs that trade accounts for retail investors who open their accounts directly with us. Finally, we need to be well capitalized to maintain our prime broker relationships at the credit level we require, so, all things considered, that capital is fully deployed within our business model.

How is your position in Korea? Advanced Markets has been big in Korea for a while now – is the market different there than rest of the world?

We have been tremendously successful in developing relationships with the largest Korean securities firms. One reason was our straightforward business model. Also, these sophisticated companies understood and appreciated that in our DMA model their clients were trading on live pricing from the largest banks in the interbank market. We also benefit from our association with Macquarie Bank, which is an investor in the firm and a tremendous partner. Everywhere we go, especially in Asia, Macquarie is well respected from their own dealings in the market place.

Did you experience a significant drop in volumes in Korea?

The new margin requirements there are 10 per cent, which greatly affects the volume one can trade from the amount of funds they deposit. FX volumes in Korea have dropped dramatically across the board since the new margin level was established.

Have we reached maturity?

The hyperbolic growth of retail FX trading is leveling off globally. As traders get more experienced, however, we think they will better understand the importance of robust market data and trade executions to their trading performance. We think that trend will benefit our DMA model and the brokers, banks and traders that support it.