



Building Trust with Clients through Objective Research and Performance Reporting

Challenge

A Chicago-based institutional brokerage firm was experiencing success in a very niche market, servicing sell-side institutional clients, including inter-broker dealers and options brokers on the New York Stock Exchange. They had essentially saturated the marketplace with their niche equity derivatives offering, and were now looking for new opportunities to expand the business.

This firm, a certified women's business enterprise (WBE), decided to enter the buy-side brokerage business, which includes servicing global banks, asset management firms and pension funds. These buy-side institutional clients would often have mandates to work with minority and women-owned firms. This created a unique opportunity for growing the brokerage firm's business. But, the firm was new to this side of the brokerage business and needed help determining how best to prepare for entering the buy-side marketplace.

The mandate from the CEO: Provide insights into the buy-side market, staff the brokerage firm as appropriate to meet these needs, and implement the systems necessary to remain competitive.

Solution

The solution was to build out a new trading functionality. Systems, process flows, talent and products offered were all implemented within a relatively short timeframe of 18 months.

The following was implemented:

- ✓ Hiring six seasoned traders, including a new manager for the trading desk
- ✓ Bloomberg terminals implemented for each trader
- ✓ Roll out of a 24-hour international trading desk
- ✓ New trading platform to handle both domestic and international trades
- ✓ New fundamental equity research capabilities focused on small- and mid-cap regional Midwestern banks, included quarterly research reports
- ✓ Hiring two dedicated research analysts
- ✓ New transaction cost analysis (TCA) system to measure trading activities
- ✓ New automated compliance review system, including oversight of FINRA licensing for all new hires

Impact on Business

As a relative newcomer to partnering with banks, asset management firms and pension funds, the firm needed to prove itself in the marketplace. Its goal was for these potential clients to understand that the firm was capable of providing “just as good” or “even better” trading and research services as the largest bulge-bracket firms in the industry. This was not a small task for a relatively small, new player in this arena.

This integrated solution had a significant positive impact on the business. The greatest impact was in building trust with clients and prospects, which led to substantial new business. This trust was enabled in the following ways:

- ✓ The fundamental equity research capability was an excellent loss leader for the firm; Research reports were timely and high quality, and were offered to financial institutions for free to provide insights on their trading decisions.
- ✓ Performance reports on trading activities through the new TCA system allowed the firm’s traders to analyze their pre- and post-trading performance per client orders. They were able to communicate findings to clients and adjust their trading approaches appropriately. Pension funds were impressed with the objectivity and performance presented in the trading reports and began recommending the brokerage firm to other institutional clients.
- ✓ The high caliber of traders and research analysts hired impressed clients and strengthened relationships. Ultimately, the firm’s traders were seen as an extension to the clients’ trading desks.

Within two years the firm was able to significantly build its client base, including:

- ✓ 30 pension fund clients from around the country
- ✓ 20 investment management firms, including those associated with global banks

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