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Market Axess Tailors Bond Trading Model To All Tastes

By John Parry, 02/07/2001

NEW YORK -(Dow Jones)- A finger in each pie.

That's the revised approach to online bond trading by one of the sector's biggest players, Market Axess.

By acquiring a rival site, Trading Edge Inc., on Jan 31, the developers of the trading platform were able to expand the range of fixed-income assets on the transaction menu. Most importantly, Market Axess also made a key strategic decision which will allow it to tailor trading of different types of fixed-income to different requirements.

Instead of sticking exclusively to the disclosure counterparty method initially espoused, a Market Axess official said Wednesday the company now plans to add the anonymous trading model, which is also used by its most direct competitor, BondBook LLC.

In anonymous trading, buyers and sellers fly blind to each others' identities. By contrast, the "disclosed counterparty" mechanism allows clients to see which dealer is bidding or offering at which price.

Both Market Axess and BondBook offer multi-dealer backed online systems which will compete in trading corporate, high-yield and municipal bonds.

Not All Bond Transactions Are Made Equal

"For more liquid bond issues, maybe the anonymous model is more effective," said Sang Lee, electronic trading analyst at research company Celent Communications, citing the highly transparent and liquid Treasurys sector as one example.

But anonymity is not a desirable approach to shifting less frequently traded types of bonds, including municipal securities. Here, one danger of invisibility is that "some firms commit (to a trade)...and at the last second back out," Lee says.

In such less fluid fixed income areas, buyers and sellers need a disclosure counterparty system in order to identify each other, Lee says.

Trading in the dark can be an accident-prone sport in illiquid fixed-income trading sectors, agrees Fred Yosca, vice president and trading manager at BNY Capital Markets Inc in New York, who trades municipal bonds.

"You wouldn't buy a used car without driving it first," says Yosca, referring to the requirements of online buyers and sellers in the muni sector. "The muni market does not easily lend itself to being commoditized," unlike Treasurys, where anonymous systems can work well, Yosca adds. In munis, there is often a need for detailed information about the price history of the specific security itself and about who sits on the other side of a trade, he adds.

Another consideration platforms must make when deciding to offer anonymous or disclosure systems is the type of client.

Bigger Players Prefer Discretion

Some bigger buy-side firms prefer to hide their identities because the sheer size of the trades they stage can affect the market's perception of the price, often to that firm's disadvantage.

These players commonly split up a big bundle of bonds into smaller lots to sell separately in the marketplace, hoping that by giving the impression there is less supply coming onto the market they may get a higher price.

By contrast, smaller buy-side firms are more relaxed about markets knowing they are looking to buy or sell a particular bond issue.

"I do not need an anonymous system because I do not have any individual position that needs anonymity," says **Mark MacQueen**, who manages some \$800 million for Sage Advisory Services in Austin, Texas.

And to make matters more complicated, some players adopt a 'now you see me, now you don't' approach, flitting between one method and the other on a case-by-case basis, depending on what suits them in a specific trade.

Lee of Celent has noted that some players in online fixed-income "have said they prefer anonymous trading when they are trying to dump a position, but when they are trying to buy bonds they want disclosure."

That's another reason why fund managers, analysts and players in the online bond trading sector expect that demand will foster the coexistence of alternative trading models over the long term.