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## JonesTrading Makes Move into Options

By James Ramage

Agency block-trading firm JonesTrading is diving into the crowded field of listed and over-the-counter options.

The firm recently hired its first five options traders for offices in Chicago, New York and Toronto. The goal is ambitious: To increase its staff numbers throughout the rest of the year to at least 25 across its 13 offices, Jones President Will Geyer said.

The move began last summer when Jones hired Tom Steen from a hedge fund in Japan. He leads the derivatives team from his office in Toronto. Steen is a 19-year industry veteran who spent most of his time as a managing director in Merrill Lynch's derivatives group.

Jones built its business as a high-touch agency desk with a massive sales force, the classic third-market model. It now has roughly 100 sales traders.

Jones now wants to leverage that sales force across asset classes to extend its customer base, Geyer said. It added high-yield bond trading in the past year, and its derivatives effort is an extension of that strategy.

"We believe [clients] will embrace our model as we move into derivatives, just as they have in equities," he said.

Jones started the derivatives desk because it wanted to take advantage of the opportunities it saw over the past 18 months, as large investment banks have disgorged many talented sales traders.

"We're still in the middle of a once-in-a-generation opportunity to attract the right people," Geyer said. "And we're capitalizing on that, because it's a business built around people."

Steen said the firm also saw an opportunity in a down equities market to generate revenue

while helping clients hedge their risk.

"So, if you're talking to [clients] and you're building on top of a high-touch service model that exists at Jones, and you really help them through sideways or down markets, you almost have to be talking about derivatives," he added.

Jones' move is looking to take advantage of trends in the options marketplace. Institutional volume in listed options has climbed in recent years to more than half of the business, according to the Options Industry Council. That's because more institutions are using options to hedge their positions, said OIC's Jim Binder.

"We've seen increases in electronic trading and we've seen spreads coming down," Binder said. "It's just made it easier for [institutions] to be involved. And we're probably seeing a little more activity recently just because of what's happened in the marketplace over the last six months, or more. It's brought focus on why investors need to be using options."

At Jones, each options sales trader will be responsible for covering accounts and generating orders, Steen said. The firm will direct its most specialized or complex options orders to a centralized trading desk in Chicago, Geyer said. But each order will be managed by a sales trader.

"The sales traders are controlling the orders and working that through," Geyer said. "They have the ability to trade themselves, as well."

The firm's move into options was more than a year in the making, Geyer said. Changing market conditions--and fortunes at the large investment banks--over that period have only added to Jones' resolve.

"They're in an uptick now," Geyer said. "And there's the boutique fatigue. And we know there are a lot of these new entrants popping up and mushrooming; that was going to happen. But we've been working on this. This was a 2008 initiative that's come to bear fruit in 2009."

Geyer acknowledged that the listed and OTC options area is a competitive one. But he believes that the firm's ability to leverage its sales force into a new product will bring success. He declined to give specifics on expected revenue or other internal goals the firm has set.

Jones brought in Mark Neuman as a managing director for its New York office. Neuman arrived from listed options market heavyweight Susquehanna International Group, in New York. He also spent nine years as a senior producer in derivative sales at Merrill Lynch.

In June, Rich Breiteneker will head Jones' derivatives agency trading desk, which will provide execution services. Breiteneker comes from Barclays Capital, and had also been a derivatives salesman at Lehman Brothers and Merrill Lynch.

Jones tabbed Chris Rich as its head options strategist. He also supports the derivatives agency trading desk. Rich was a senior options strategist at broker-dealer Newedge Group, in Chicago. He arrives at Jones with more than 25 years of options experience in analysis, trading and sales.

In addition, JonesTrading moved trader Jeff Smoke from the Orlando, Fla., office to its desk in Chicago to help run day-to-day operations. Prior to Jones, Smoke was a trader at the derivatives firm Equitec Proprietary Markets, in Chicago.

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