Twitter Thread by Kris



Kris
@KrisAbdelmessih

Floor trading and fintwit share an overlapping dynamic

"cooperative competition"

It'll be fun to lay out some basics of the floor trading ecosystem and you will spot analogies.

First an fyi.

The floor gave traders what was known as "time/place advantage". It was the first place an order became public if it was not an electronic order.

Let's classify the traders on the floor:

"Locals" and prop firms

"Locals" are independent traders.

They trade their own money and secure the right to trade on the floor by owning or leasing one of the limited seats which represented an ownership stake by the exchange's "members" (this was before demutualization)

You know prop shops.

Names like Group One, Timber Hill (IBKR), Jane Street, CTC, DRW, Cooper Neff, O'Connor, Cutler, Wolverine, and my alma mater SIG.

Traders representing these firms usually have a salary and bonus (discretionary, formulaic, or hybrid)

A little digression. There's a 3rd class of trader which is a "backed" trader which blurs local and firm.

These firms were usually tied to clearing firms and offered economies of scale in risk management, software, data, clearing rates.

I left SIG in 2008 to get backed...

From 2009-2012, I put up escrow with a firm whose business was to bankroll traders. In my case I got 70% of my p/l, and i could sleep knowing i couldn't lose more than escrow. Giving up 30% was worth it to me.

My backers were well-capitalized and allowed us to trade as big as firm traders (but our escrows ranged from 6 to 7 figures). We answered to risk managers as well. But for the most part we were left to build teams and businesses as we saw fit.

Now that we know the players, some dynamics.

Locals, since they are not as well funded, trade smaller and focus on extremely high Sharpes (although they wouldn't use this lingo), low capacity opportunities.

Locals tend to be seasoned and run tight risk. Many were very independent minded, more likely to be misfits who are allergic to jobs and W2s.

Firm traders tend to be more pedigreed, younger and less autonomous. They are well-resourced, well-capitalized, and can trade big.

The floor is competitive. If a broker lifts the pit's offer for 500 contracts, mm'ers fight for "recognition". Everyone wants an allocation. Politics, justice, and game dynamics is worth a thread of its own. The main point is that folks are fighting and scraping for market share.

But the floor is also cooperative. It's an emergent trust system since you are moving large sums of money by the sound of your voice.

Even a den of thieves has a code of ethics. Word is bond. Welch on a broker and she's not trading with you again.

This trust system is further reinforced by incentives. You are competing with each other, but the broker flow is the ultimate source of compensation. Everyone on your exchange wants the flow to keep coming.

There's an informal favor system or quid pro quo that ultimately serves the broker's clients not having errors.

Nobody, not the exchange, traders or brokers wants clients taking their ball and going home.

Finally, you cannot help but make friends with many of the people you stand shoulder to shoulder with all day. After all, you share common interests. You want to know each other's comp deals. (I joined my backer bc of such a friend)

There's more...

Every day is an interview. You are watching each other, sizing each other up, looking to hire or maybe get hired.

The info barter game: what can I share that isn't valuable but sounded valuable.

Constant sandbagging about what pits had edge.
"it sucks in here, nobody makes $"

How bout sniffing out disgruntled mm'ers at competing firms...a young trader upset with their bonus who would trade info for acceptance. They are dreaming you'd hire them (somehow oblivious that a willingness to divulge secrets is not a quality you advertise to future employers)

So the social dynamics in a competitive cooperation setting are a cartoon.

Sure you might get in a nose-to-nose screaming match for an allocation to the big order that came thru the pit in the am. But later you'd grab a beer at Suspenders.

Sam Sheepdog & coyote punching the ■■



Then there's the meta learning that comes from seeing what your competitors are doing.

For example, just noticing that your competitor is talking on a headset all day to their screen or Clearport trader then does something in the pit is good info.

Plus you now want a "hoot".

If you know that SIG sees global flow in real-time then when they are the best offer in vol in your pit you can adjust your opinions/models.

If Susq was a seller of BBH vol you might ping your mm camped in the DNA crowd to see if Susq was legging correlation.

Timber Hill had a model that removed discretion from their traders. So they were not using negotiation tactics to maximize individual fills but were optimizing for more holistic edge/risk targets.

They had a "box" with a model populated by all their tentacles of intel.

So every other mm'er in the pit came to see Timber's undisguised behavior as valuable market intel to calibrate against their own opinions. You could lean on their markets & "free roll" on their transparency

Learning from watching your competitors is common in business esp public businesses. The proximity to them is more similar to sports though. The way you learn from a coach you consider smart who does something unconventional like go for it on 4th and medium on the 50 yd line.

Or watching how baseball managers might shift their defense based on the batter. Or an NFL coach letting a RB walk in for a TD when the only chance to win is to receive another kickoff.

Everyone learns from this strategy that can't be hidden.

Anyway, Twitter feels like a cooperative competition. You can spend parts of your day shooting the bull with people tied together by the same callings of opportunity and learning.

Being on an upstairs desk can feel more like a library than a bazaar. And wfh doesn't help...

Twitter fills a void for me.

It's fun being on Twitter and I couldn't help noticing some similarities to the floor. Thanks for making the days more fun and floor-like.