# THE ELECTRONIC FINANCIAL

# MARKETS OF THE FUTURE

and survival strategies of the broker-dealers

LAUREN LIEBENBERG



### **Contents**

List of figures	ix
List of screen shots	xi
List of tables	' xii
Acknowledgements	xiii
List of institutions (acronyms)	xiv
Other acronyms	xvi
PART I EMERGING MEGA-TRENDS: UNPRECEDENTED CHANGE: THE CAUSE AND EFFECT	1
1 Introduction	3
The Technological Origins of Change Connectivity on a Global Scale: The Network Effect The Power of Computational Power The Emergence of the Networked Economy	3 4 4 5
2 From Localisation to Globalisation	6
In the Beginning The Omnipotent Extreme Volatility The Causes of Crises Ideology and Globalisation Summary	7 7 7 9 17 19
Summary	1

### CONTENTS

	Footnote: Regionalism Conclusion ,	20 21
3	Derived Effects	23
	Network Effects	23
	Computational Power Effects	27
	Conclusion	31
4	Networked Financial 'Supermarkets'	32
	Market Architecture	32
	Globalisation	38
	Convergence	38
	Disintermediation . ,'	39
	Open Markets, Price Transparency and Anonymity Dynamic Pricing	41 41
	Automation and Data Analytics	42
	Summary	43
5	eVolution of Market Structures	45
	There is (Some) Method to the Madness	45
	An eVolution	45
	Fundamentals of Market Theory (or Market Theory 101)	47
	Overview of the Evolutionary Process	48
6	A Virtual Tour of the e-Markets of Today	51
	Single-dealer Systems	51
	Multi-dealer System's	52
	Inter-dealer Systems	61
	Crossing Networks	65
	Electronic Communications Networks (ECNs)	73
	Summary	. 85
PA	RT II UNPRECEDENTED CHANGE: THE IMPACT!	87
7	Liquidity: The Rising Tide	89
	Closed vs. Open Markets: Are Differentiated	
	Product Offerings and Market Positions Sustainable?	89
	The Open Market Advantage: Multi-dealer Liquidity	92
	Timing: A Reprieve for the Single-dealer	93
	Equity and Liquidity: The Power of Liquidity	
	Provider Consortia	94

	Equity Stakes and Hedging Bets Revelations about the Rate of Evolutionary Change Politics in Business Implications of Liquidity Power Mongering on	95 1 97 99
	Transparency and Efficiency Conclusion: Open Markets both Need and Attract Liquidity Disintermediation: Plays by the Power Players Commoditisation ,	102 104 104 108
8	Balance of Power and the Efficiency of the eXchange	110
	Buy-Side Empowerment Market Efficiency and the eXchange	110 111
9	Auction Systems , ;	123
	Equity Markets Debt Capital Markets Arcane and Illiquid Markets	123 130 142
10	Strategic Response of the Traditional Exchanges: The Death of the Open-outcry Pit	143
	War Games: Warring Factions Relative Competitive Advantages Turbulence in the World's Exchanges after Years	143 143
	of Inertia The Masters of the Universe	144 147
	Conclusion Down the Food Chain: The Super-clearers	153 154
11	The Emergence of New Forms of Commodities and Risk	163
	The History and Future of Money The 4th Dimension The Multiples and Derivatives Effect Examples	163 167 168 172
PAF	RT III THE RESPONSE: SURVIVAL STRATEGIES	183
12	Strategic Response of the Broker-dealers	185
	First Principles Automation Connectivity	185 189 189

#### LIST OF FIGURES

9.2	Corporate debt outstrips government: outstanding level of public and private debt (1985-2001)	131
9.3	A model e-Bond auction system	141
10.1	Competitive environment analysis: relative positioning perceptual map	149
10.2	• • •	0
10.2	developments	160
11.1	Product development cycle in commodities markets	171
12.1	The response	186
12.2	The feedback, mechanism between customer and proprietary dealing strategies	192
13.1	The changing Internet paradigm	215
15.1	Market-making keeps pace	223
15.2	Wall Street power houses exhibit hyper-growth in trading revenue	224
15.3	Broker-mediated trading process with multiple destinations	235
15.4	Direct trading model -	236