

SWIM – Retail Liquidity goes from Strength to Strength

Double-volume caps, large-in-scale restrictions, periodic auctions and systematic internalisers. In the first eight months of the new MiFIDII regime the trading landscape has evolved radically. New liquidity venues abound, fulfilling a variety of purposes and masters, some merely to enable the compliant trading of existing business in the new world, and others that genuinely introduce new liquidity.

And we can see more about who's using these venues too. Accountability for where and how you trade has also changed, as the mandatory publication of execution data from every market participant makes trading policies transparent and measurable. One such new venue, launched in February, has already seen significant growth. The volumes and execution quality it achieves are significant, yet it utilises existing connectivity and trading relationships to deliver truly differentiated liquidity with minimal business and technical impact.

Strength in Numbers

SWIM, Stifel Europe's retail liquidity pool, was launched in February 2018 and has already traded over £500m across a broad range of large and mid-cap instruments. By executing resting institutional orders against inbound RFQ and IOC orders from predominantly retail clients, Stifel have brought a new dimension – through cutting edge new technology – to a trading methodology that dates back to Big Bang.

The Retail Service Provider (RSP) network, the long-established facilitator of immediacy and liquidity to retail stockbrokers, is underpinned by a number of market-makers, who make two-way prices when requested by their retail counterparts. Now, Stifel's SWIM platform enables their institutional client base to interact with that inbound retail flow too. And the results speak for themselves. With average trade size of £6,500, significant multiples of average daily volume are frequently filled in hard-to-trade mid-cap names, and the venue is not subject to volume caps. Overall, average price improvement is nearly 16 bps, with spread capture over 60%.

The beauty of this new venue too is that whilst disruptive in thinking, the mechanism of trading from both client sides is unchanged. Retail clients using the RSP network still see competing quote responses compared against their existing market-maker relationships. On the other hand, Institutional investment managers and discretionary stockbrokers can place their orders into SWIM using a variety of existing benchmark algos and smart routing algorithms as passive orders.

It's the nature of the liquidity sitting in SWIM that is radically different, enabling competing quotes to be sourced from deep, natural volume, minimising market impact and achieving astonishing execution quality.

Retail Execution Under Scrutiny

So can SWIM really broaden the liquidity available to retail and institutional investors? One of only two capital market studies performed by the FCA since MiFID II go-live has scrutinised best execution in the Investment Platform market in particular. Its interim findings imply more can be done to improve venue choice. "Investment Platforms that provide stockbroking services to retail investors can do more to assess available liquidity in the market to inform their venue selection". This is according to the report's findings on the dominant use of RSPs. It accepts that 95% of retail trading in the UK is executed this way, and in calm waters, RSPs offer a fine service. The regulator has pointed out though, that in times of market stress, contingency arrangements may not be adequate to ensure Best Execution, leading to poor performance, or retail clients being unable to trade at all in some circumstances.

So is SWIM the answer to the retail market's dependence on RSPs? For sure. Independent market share analytics prove that SWIM helps with retail execution in volatile markets because of the natural nature of the institutional business that underpins the liquidity. SWIM's record trading days in individual instruments have been on the event of a market-moving news announcement, transacting significant proportions of the market volume on those days. And for those looking to further mitigate the risk of market volatility and limited venue choice, Stifel's broader SELECT electronic trading service can offer direct multi-market access and additional algorithmic trading functionality too, meaning those taking heed of the FCA's recommendations have access to a full-service offering in one.

The momentum is clear to see. Innovation isn't the preserve of the biggest exchanges and investment banks. Stifel Europe, with clients at both ends of this execution spectrum has charted new waters to successfully deliver institutions with high quality retail liquidity and in doing so puts institutional liquidity within reach of retail clients. SWIM is new and growing, and has proven that retail flow is relevant, deep, and a worthy source of differentiated liquidity in the tool-kit of electronic trading. The power of the individual is gaining critical mass, and continues to go from Strength to Strength.