# The Power of Data:
## Strategies for Brokers

Finalto
Broker Series

# Why is Data Important for Brokers?

## SECTION 1

Data holds immense value in shaping the development, offering, strategy and reputation of brokerage firms.

This is because data facilitates the creation of more innovative products and services for their customers, deeper insights into the wider market, and fosters more dynamic and responsive internal decision-making.
Equally, effective and efficient data applications allow firms to more easily align with the expanding regulatory mandate of financial authorities such as the FCA and SEC. Regulations such as Consumer Duty in the UK mean firms must still ensure fair customer treatment even as the sector becomes faster paced and more technologically advanced.

Brokerage firms that effectively leverage data will find themselves not only enjoying the competitive advantage of more robust systems, but also that they are better equipped to meet the increasingly stringent expectations of their relevant regulatory body.
In this paper we will explore the pivotal role of data in the brokerage industry and learn how to harness its potential to drive success as well as mitigate risk and liability.


www.finalto.com

# Data in Transactional Cost Analysis

## SECTION 2

Transactional Cost Analysis (TCA) is the process of evaluating the costs associated with executing trades.

TCA enables brokers to optimise their trading strategies, improve their clients' experiences and demonstrate equitable business practices to their relevant regulatory bodies. Moreover, by thoroughly analysing transactional data, brokers can pinpoint potential cost savings, monitor trading performance, and offer valuable insights into improving execution quality. Data Sales Manager at Finalto and former Bank and Financial Institution Liaison Officer for the ACI, David Hastings asserts, "in today's competitive and often heavily regulated brokerage market, brokers must continually adapt and improve their analytical and data capabilities to stay ahead."

In addition to this, brokers will find that regulators are beginning to expect more than just price information when scrutinizing a trade for best execution. Hastings elaborates: "The expectation from regulators is evolving. To stay compliant, brokers will increasingly require a more comprehensive understanding of the rationale behind each trade, including the selection of the price and liquidity provider it's coming from." As a result, brokers must be able to provide detailed information about their trading decisions that often extend outside the boundaries of their own ecosystems.

As you might expect, transactional data is an essential part of this process; as the quality and scope of the dataset will be directly translated into the quality and scope of the analytics that come out of it. Hastings explains: "To perform TCA effectively, brokers need access to a wealth of data, which they may not always have access to – depending on the scale they are operating at." Especially when competing globally, gathering and analysing the extensive data required for effective and competitive TCA can be both resource intensive and time consuming.

An attractive solution for brokers looking to fill their data deficits without stretching themselves thin is through outsourcing the provision of additional datasets and analysis to specialized financial service providers such as Finalto. Third parties like Finalto offer comprehensive datasets that enable brokers to benchmark their performance against competitors and general industry standards.

By leveraging this data, brokers can gain a more nuanced understanding of their own operations in a wider context. This allows them to focus on refining their trading strategies and client services without the need for extensive dedicated internal resource allocations.

---

*"Data provisions from independent, longstanding, and trusted institutions such as Finalto, will become increasingly important to verify the outputs of internal cost analysis platforms."*

– David Hastings

Finalto Broker Series

# Data to Create Algorithmically Generated Blends

SECTION 3

Data can offer the facility to create new and innovative ways to construct value-added offerings for brokerage clients. One example of this is that with enough data and the right interpretative algorithms, brokers can offer custom algorithmically generated blends that change in accordance with market trends.

For example, a broker could offer a 'Last Quarter Medium Risk Return Blend' or a 'YTD High Risk Return Blend'. These tailored asset baskets offer a spectrum of instruments for different risk appetites, return expectations, and overall market interest, based on current data. By employing cutting-edge algorithms, brokers can continuously refine and improve their offerings, adapting to changing market conditions and emerging investment opportunities. This advanced strategy enables brokers to differentiate their services, cater to diverse investment goals, and potentially attract a broader client base.

Think of algorithmically generated blends as a middle ground between copy-trading and algo trading; allowing traders on the consumer level to enter into data-generated asset baskets without the need to delve into complex coding or algorithmic tweaking. Not only does it allow brokers to provide personalized investment solutions, but it also enables clients to gain access to innovative, data-driven strategies that are tailored to their unique financial goals.

# Automated trading

# VS

# Manual trading

# Data-driven Insights for Expanded Offerings and Client Reporting

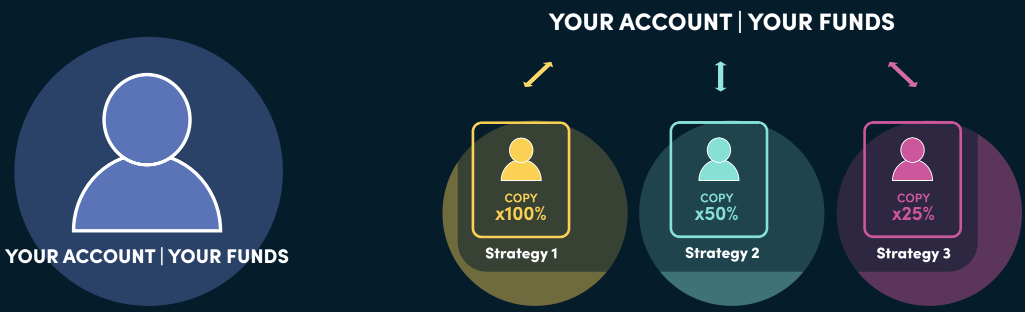
SECTION 4

Brokers can harness data to create valuable reports and data insights for their clients. This information can be provided as a complimentary service or as part of a subscription-based market insight offering.

Here are some key ways brokers can use data to enhance their offering and the extent of their client reporting:

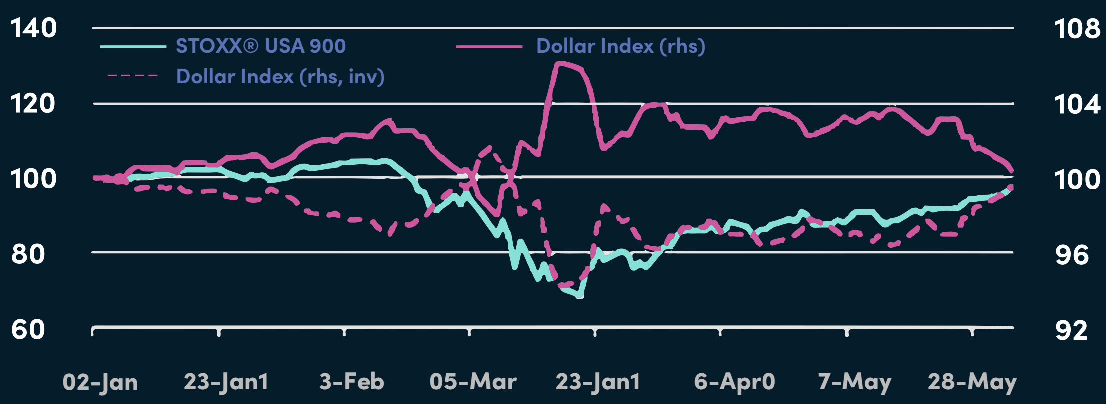
# 1.

Copy Trading: Becoming increasingly popular, brokers can use data to offer copy trading. By analysing the performance of their traders and offer users the means to replicate their trades. By leveraging historical and real-time data on trader behaviour brokers can promote their top traders, offer simple diversification and create a sticky trading community with increased retention.




# 2.

Cross-Asset Correlation and Decoupling: By examining the relationships between various asset classes, brokers can also provide clients with correlation and decoupling statistics to inform their investment strategies and decision-making. Assets that may have been correlated in the past may present new hedging opportunities.

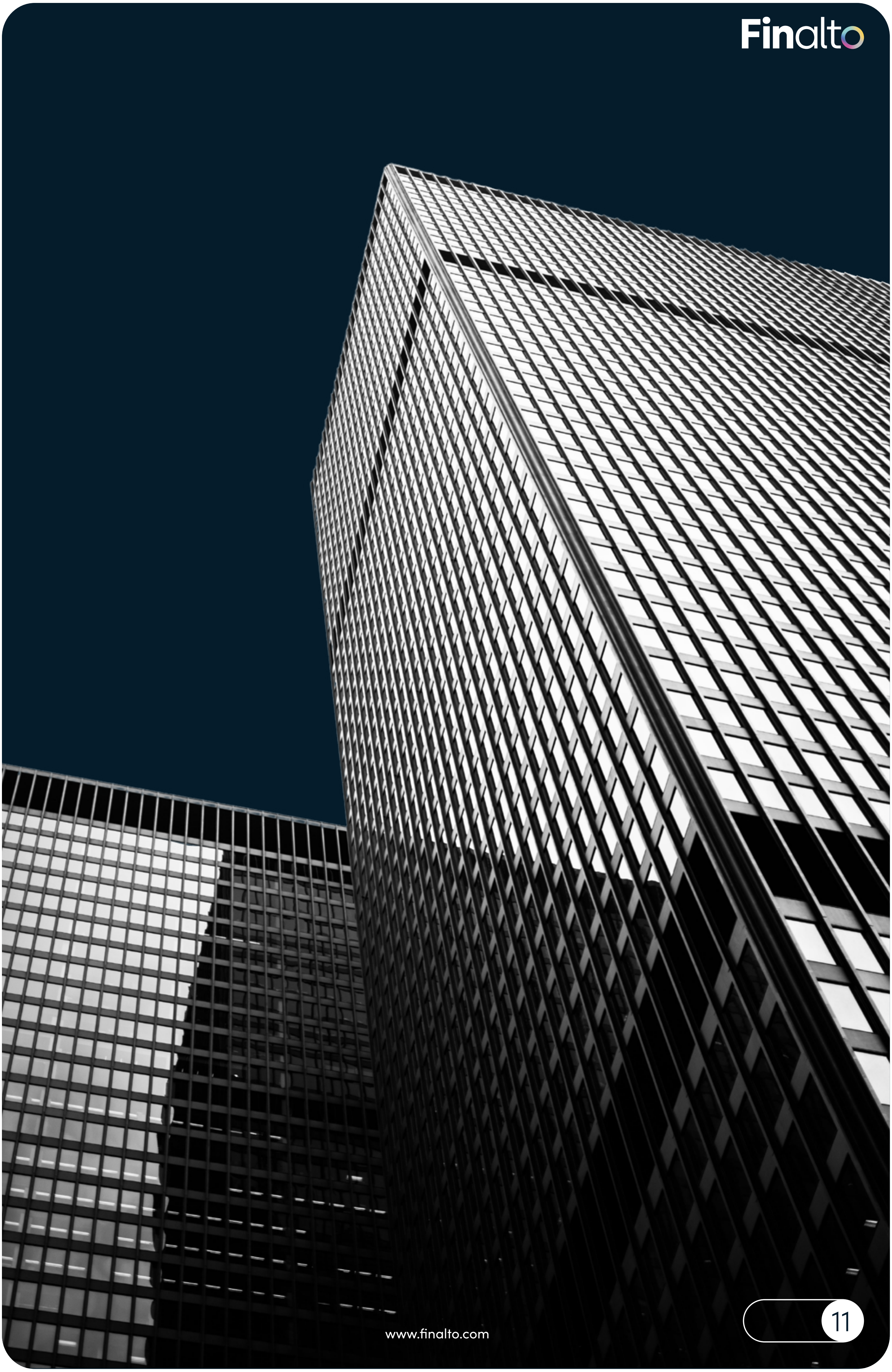


# 3.

Sector Analysis and Rotation Strategies: Analysis based on a large enough dataset enables brokers to identify sector performance trends and include broader market forecasts in their client reporting. This allows clients access to more information to adjust their portfolios by highlighting the best and worst performing sectors.

# 4.

Volatility Analysis: Analysing historical and implied volatility data allows brokers to offer insights into an asset or asset class's volatility within a specific time frame. This helps clients manage risk and limits the broker's liability if clients choose to trade in high volatility sectors.



# Data in Client Profiling for Regulatory Compliance

## SECTION 5

Data can also serve as a crucial tool for monitoring and assessing potential liabilities within your trading ecosystem. This helps brokers identify both those needing further assistance and education as well as those presenting potential risks. Such risks might arise in the form of a particularly vulnerable customer or someone using your platform for unlawful activity.

Advanced analytics tools can bolster compliance monitoring by automating the detection of suspicious activities and creating real-time alerts. This automation allows brokers to react swiftly to potential issues, decreasing the chance of regulatory penalties and fines. By analysing data and using automated algorithmic detection software, firms can proactively address potential issues, thereby reducing the likelihood of falling afoul of regulatory bodies.

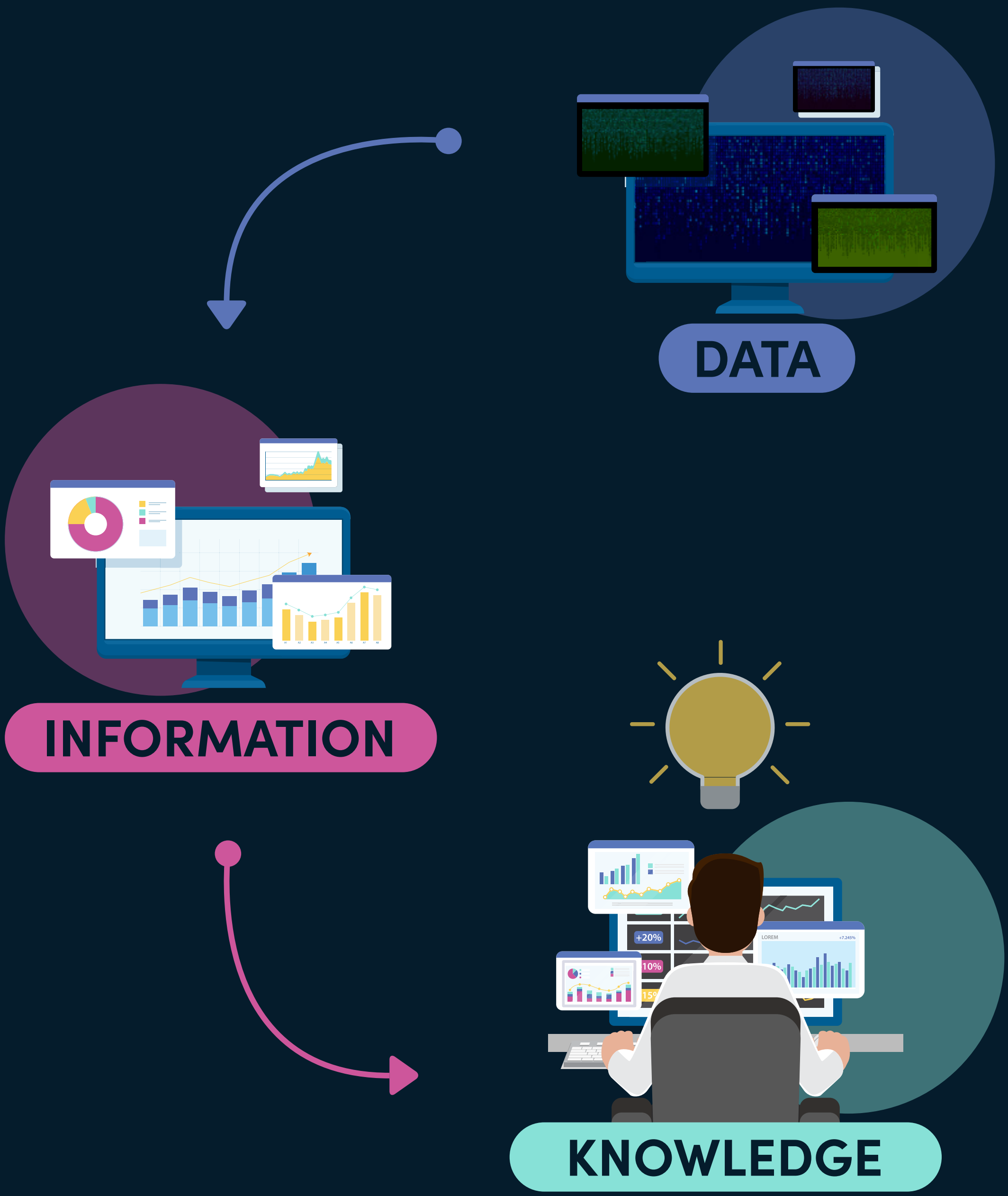
Finalto Senior Compliance Analyst Vaishali Chudasama emphasises the benefits of data for brokers as they strive to ensure compliance with their local regulators. "Brokers need to scrutinize data to detect possible violations and stay ahead of their regulatory commitments. Taking timely corrective measures protects them from legal repercussions while simultaneously building positive brand equity." She went on to explain that data enabled client profiling allows brokers to gain a deeper understanding of their clients' needs, preferences, and risk tolerance. "By understanding these aspects firms can provide more bespoke experiences and be more proactive in addressing vulnerable client behaviour too."

Particularly as financial authorities crack down on firms' obligations to provide clients with transparent and clear trading outcomes, the application of data in client profiling and liability protection will become increasingly needed and commonplace.

Chudasama concluded by saying, "In an era of tightening regulatory constraints and escalating competition, firms embracing data-driven strategies will not just be more compliant, but better poised to succeed overall."

# Data for Client Segmentation

SECTION 6



# Actionable insights

Using data to segment their clients based on trading behaviour and preferences, brokers can customise their offerings to meet each segment's unique needs. Here's just a few ways that data can aid in this process:

## Value identification

By harnessing data analytics, brokers can efficiently identify high-volume traders within their client base. These clients typically seek tighter spreads as a result of their frequent trading activities. In response, brokers can offer more competitive pricing structures, fostering stronger relationships with these valuable clients while also enhancing their overall trading experience.

## Risk Identification

Brokers can use data to evaluate the risk profiles of their clients, grouping them into categories such as conservative, moderate, or aggressive. This enables brokers to offer products and services tailored to each client's risk tolerance, enhancing their overall satisfaction and loyalty.

## Optimizing Liquidity

By closely examining client trading patterns and preferences, brokers can enhance their liquidity management capabilities. This deeper understanding enables them to strategically reallocate resources in response to varying client demands, such as during popular trading times or when specific products gain traction among different client segments. This targeted approach ultimately leads to improved service quality and a more optimized trading experience for clients.

## Niche Trading Strategies

A segment of clients may be drawn to more exotic products or have distinct trading strategies in place. By employing data analytics, brokers can accurately identify these unique preferences and cater to this niche market. As a result, brokers can offer customized access to specialized offerings, enhancing client satisfaction and fostering long-term relationships with these traders.

## Personalized Marketing Campaigns

Leveraging data-driven insights, brokers can create targeted marketing campaigns that resonate with specific client segments. By understanding the preferences and behaviours of each segment, brokers can deliver more relevant content, promotions, and incentives, leading to higher engagement and conversion rates.

# Data for Algo Trading and Custom Algorithm Development

## SECTION 7

Algo trading and custom algorithm development have become essential tools for brokers seeking to offer innovative and personalized services in the competitive financial landscape. Data analysis is at the core of these advanced techniques, and access to comprehensive datasets is crucial for optimizing trading strategies. Unfortunately for those operating at a smaller scale, extensive real-time and historical market data remain crucial aspects of optimizing algorithmic trading strategies.

One solution is the use of third-party financial service providers such as Finalto to provide larger datasets for AI training and algorithmic development. By partnering with established financial service providers like Finalto, brokers can gain access to extensive market data, which in turn enables them to develop more sophisticated and accurate proprietary algorithms. These larger datasets encompass a wide range of market conditions, trends, and historical information, providing a solid foundation for AI training and the development of custom trading strategies.

As market dynamics evolve, brokers can adjust their algorithms to capitalize on emerging opportunities and mitigate potential risks. The ability for dynamic and swift reconfigurations is essential for maintaining the effectiveness of trading strategies and ensuring client satisfaction, which may not be possible for smaller firms.

However, custom algorithm development supported by robust datasets from third-party providers allow brokers to tailor trading strategies to individual client needs without putting a strain on scarce resources.

From

Finalto

Finalto Broker Series



www.finalto.com