⟁ERIVITEC ®

Web-based Derivatives Analytics Tool

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>
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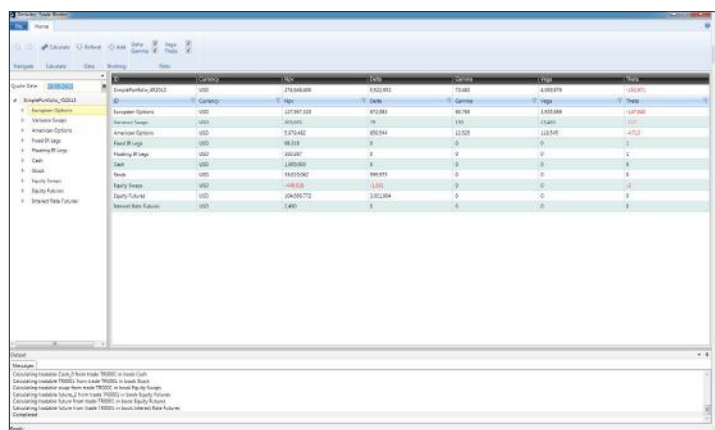> Founder and CEO
> Derivitec

Overview

The hedge fund industry has undergone tremendous upheaval and change in recent years. The headline-dominating scandals, 2008 credit crisis and accompanying global financial meltdown gave rise to new and much stricter regulation the world over—most notably Dodd-Frank in the U.S.

Despite the changes and new challenges for what was largely an unregulated market, the industry has grown to record levels, with hedge funds globally controlling more than $2 trillion in AUM. In 2012, nearly 7,700 funds reported in the U.S. alone, with more than 300 new funds starting operations in the first quarter.

One of the major contributors to the glut of start-up funds is the Volcker Rule, part of Dodd-Frank, which limits proprietary trading at large investment banks. As a result, many skilled traders from bulge bracket and similar firms have left to start their own funds.

Derivitec's Trade Blotter—a high performance, cloud-enabled trade analysis system.

Given the new regulatory demands and increased investor scrutiny, the cost of starting a new fund has grown exponentially, due in large part to the need for technology enabling an individual to manage and report risk compliantly. Not surprisingly, the cost of such systems has proven prohibitive to all but the most well-funded individuals or groups seeking to launch a new fund.

Creating an affordable, high-performance trade analysis system responsive to the needs of fund managers was the vision of founder and CEO George Kaye when launching Derivitec, LTD in 2011, a privately-owned UK ISV dedicated to the production of scalable, easy-to-use analytic tools targeted at small- to mid-tier funds with less than $100 million AUM.

A Cambridge-trained PhD in theoretical physics, Kaye well understood the challenge of creating just such a system, given his background as a quantitative analyst. He'd spent more than a decade working with equity derivatives at Credit Suisse First Boston, Goldman Sachs and UBS, engaged in building models and infrastructure for their derivatives trade desks, and creating methodologies for model risk analysis used in portfolio management.

"We believe consumers should be able to get up and running with streamlined, industry-standard financial analytics in minutes, not months, and pay for as much, or as little, as they need," says Kaye. "The cloud provided the model necessary for us to successfully build a cheap, scalable platform capable of serving the needs of cost-conscious clients."

Overall, Derivitec clients are benefited through access to an affordable on-demand analytics system engineered to their needs as opposed to existing systems packaged with an array of functions they can't use, oftentimes lacking capabilities they actually need.

Equally important, clients pay only for what they use, allowing their IT budget to scale with their requirements. Gone are the days of paying for a grid of computers used once a month, and there's never a need to worry about upgrades or operating system setup. Bottom line, managers are freed to concentrate on the true business at hand—maximizing Alpha for the benefit of their clients.

Derivitec's Data Browser delivers daily marked-to-market and live market data at the click of a button.

Analytics provisioned straight from the cloud, with full price and risk re-valuation—model-ready data at the click of a button.
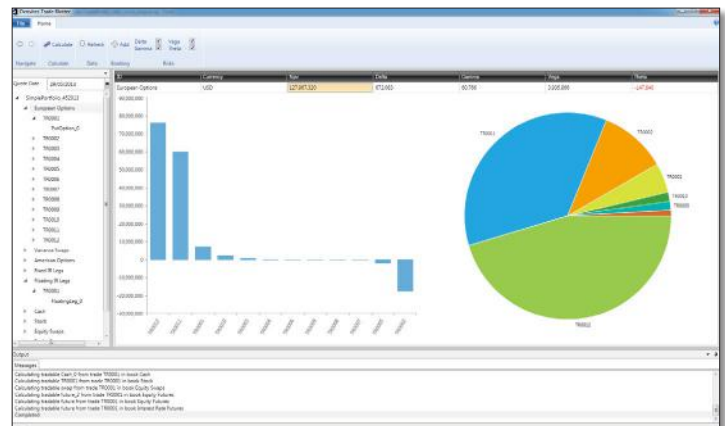
Challenge

Early on, Derivitec recognized the need to devise a scalable, high-performance analytics system capable of delivering data on demand and able to handle trade types ranging from simple vanilla to highly exotic.

The challenge they faced was that of bringing the necessary resources and capabilities together in an affordable click-and-play system that was quick to implement, easy to use and adaptable to a broad array of user needs—requiring little of a manager's time, focus and resources. Such a system simply didn't exist, so it had to be built from the ground up—a costly and formidable endeavor for a self-funded company if traditional measures were to be employed.

A major obstacle in their plan was that of providing robust, up-to-date market data that would power the system and underpin the critical on-demand analytics they intended to deliver. For the system to work to specification, the company needed to utilize an inexpensive yet reliable data feed that would easily integrate. The alternative was cross-selling 3rd-party data, thus increasing cost to the user and impeding Derivitec's ability to deliver an all-in-one solution—a chief differentiating factor in their value proposition to clients.

Solution

The company realized the answer to their challenge would come through the utilization of an approach and resources reliant on a non-traditional model—a system provisioning analytics straight from the cloud, able to provide model-ready data at the click of a button.

To facilitate this approach, the company investigated various data-feed providers, but found each to be too expensive and accompanied by unique issues they preferred to avoid.

Derivitec then turned to Xignite and its Market Data Cloud to provide a cost-effective solution that would enable them to scale operations to the cloud. The Derivitec platform incorporates several Xignite Application Programming Interfaces (APIs), including the XigniteGlobalOptions API providing delayed options quote data on U.S. and internationally-listed equity options written on over 4,000 underlying stocks, the XigniteMoneyMarkets API providing real-time and historical U.S. Treasury and LIBOR-based swap and forward rates, and the XigniteRates Libor API providing current and historical interest rate data for the Libor and over 600 treasury, money market and private-capital market instruments.

Derivitec's decision to go with Xignite's APIs was predicated on a number of key factors, including cost savings, reliability of data, responsiveness to support requests and overall ease of integration. "They provided cost effective and easy to implement data that integrated well with our system," says Kaye. "We got what was needed and were able to set up within one week. As for their pricing, when it comes to providing scalable cost for data, Xignite leads the pack."

Utilizing Xignite's user friendly APIs, Derivitec has been able to easily build up daily market data for download onto its own cloud storage, enabling them to bypass data management headaches and receive market data on demand.

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Users have the ability to dive into trades, stress model and market parameters, and run back tests and simulations.
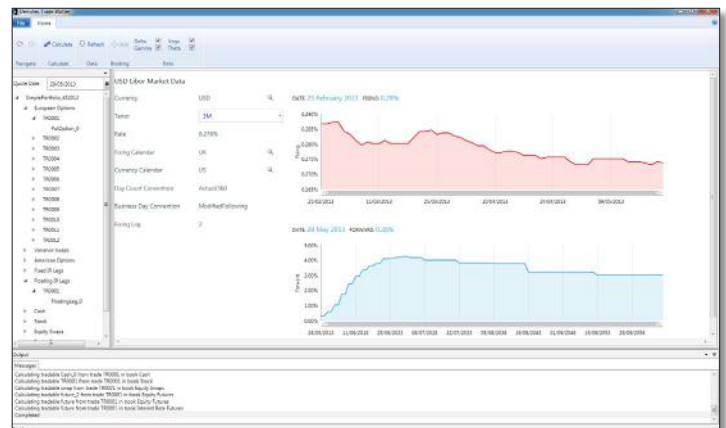
Derivitec's Trade Blotter utilizes Xignite Libor Rates, Global Options and Money Market Data.

Results

Harnessing the power of cloud-based technologies, including an array of Xignite APIs, Derivitec was able to cost-effectively create their proprietary Trade Blotter and Data Browser platforms. Their system is fully scalable and capable of providing accurate, easily managed marked-to-market data and validated, industry-standard models. Users can easily navigate a well defined set of trade types, dive into trade details and market data, and run full revaluation on a rolling daily basis.

Xignite's APIs play an integral role in the Derivitec system. "If not for Xignite's data, we would have been forced to engage in cross-selling—clients would have to obtain 3rd-party licensing for their data feed," offers Kaye. "Xignite's data is key, offering resalable data for a price you can afford."

With their Trade Blotter and Data Browser in place, Derivitec can concentrate on engineering solutions precisely aligned with client needs. Moreover, they are able to set their sights forward to expanded capabilities, such as value-at-risk and other computational models, as well as the delivery of mobile apps across the Microsoft, Apple and Android platforms, enabling complete on-the-go data access and analytics functionality wherever a fund manager might be located.

Working together with Xignite, Derivitec has succeeded in delivering an affordable, cloud-enabled trade analysis system empowering hedge fund managers to Price Fast and Look Deep!

About Xignite

Named one of the ten coolest brands in banking, Xignite, Inc. empowers innovation across financial services. Xignite provides cloud-based real-time and reference market data to financial services and fintech companies for easy integration with websites, apps, and software. The Xignite Market Data Cloud platform, hosted by AWS, allows companies to simplify infrastructure, scale quickly, and innovate faster. Xignite's clients include more than 1,000 financial services, media and software companies including BMO, BlackRock, Charles Schwab, and TIAA, as well as leading fintech disruptors such as Betterment, FutureAdvisor, Motif Investing, Personal Capital, Robinhood, SoFi, StockTwits, Wealthfront and Yodlee. Visit xignite.com or follow on Twitter @xignite.

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