



‘Anonymous’ Weeden Focuses on Blocks

By John D'Antona, Senior Editor · April 15, 2016

The leafy suburb of Greenwich, Connecticut is home to upscale boutiques, hedge funds, and a comparatively obscure mid-sized brokerage that trades as well or better than the Wall Street giants located 35 miles southwest.

In a nondescript headquarters building located near a Rolls Royce and Ferrari dealership, Weeden & Co. Chief Executive Officer Lance Lonergan said the firm’s low profile is by design.

“We prefer anonymity,” Lonergan told Markets Media. “Weeden has a certain mystique about it — we value discretion around how our leadership and our partners go about our business.”

“This mystique has enabled us to gain the trust of clients over time,” Lonergan continued. “While some others were out beating their chests, we found that clients preferred our quiet approach.”

A key Weeden tenet is for employees to have ‘skin in the game’, i.e. have their own capital invested in the firm and be responsible for risk-taking and profit management. Weeden is structured as a partnership with a leadership committee of 12, though Lonergan noted that all 125 employees are considered partners.

Weeden was founded in 1922 as a California-based municipal bonds company, backed by a \$25,000 loan from Frank and Norman Weeden’s sea-captain father.

Almost a century later, the agency-only firm punches above its weight in the complex, largely electronic markets of 2016. In a recent Woodbine Associates survey that measured quality of trading coverage, Weeden scored in the top quartile for both its high- and low-touch trading desks – keeping pace with Credit Suisse, Goldman Sachs and Morgan Stanley and besting firms such as J.P. Morgan and Citigroup.

Lonergan, a backup quarterback at Penn State in the late 1980s, explained that Weeden’s core value proposition is to help **buy-side clients** find counterparties for block trades in ‘upstairs’, or off-exchange, markets.

“The key is mentoring people in the art of block trading, teaching them how to slow down the market in order to negotiate very large blocks of stock upstairs,” Lonergan said. “We strive to do that consistently, getting our clients

comfortable getting their blocks of small- and mid-cap stocks upstairs, away from high-frequency traders who can get in front of that trade.”



Lance Lonergan, Weeden

Bill Foster, head of Weeden’s program trading desk, noted that the firm doesn’t have a proprietary trading book, nor does it internalize orders in a **dark pool** to save costs or engage in payment for order flow.

“We truly are agnostic when it comes to venue selection,” Foster said. “We’ll go anywhere, regardless of the cost, as long as we get the best fill for our clients.”

Foster’s 12-person desk ‘works’ orders thoroughly, trying to avoid using algorithms. Pre-trade analysis identifies any so-called tail events that could pose a problem. The cash trading desk works alongside the program traders, helping route orders and overseeing algos, if used.

Heading up the firm’s electronic trading desk are veterans Paul Pantalena and David Margulies, who know their way around algos, smart order routing and other intricacies of high-speed markets.

The centerpiece of the firm’s electronic offering is its recently upgraded OnePipe and Ghost algorithms. According to Margulies, OnePipe has been enhanced with two types of logic designed to find larger blocks of stock.

Block hunting logic tells the algo to sequentially send out the entire order quantity to a subset of venues which have been identified as historically providing the highest probability of sourcing block liquidity in that particular name. In block seeking, when a large fill is received at a single venue, the algorithm will immediately send a multiple of that fill size to that destination again.

The desk also offers a Ghost Strategy algorithm that is designed to patiently work an order utilizing the price action of the security as the primary driver for execution speed.

Also, Margulies and his desk can use momentum technology, which can speed up the rate of trading as the price moves in an order's favor, and vice versa.

Weeden employs 40 sales traders, 25 traders, and 25 technologists. The firm recently added a market structure research group headed by Andrew Upward, who joined from Rosenblatt Securities. Upward said his role is to provide the buy side with market-structure commentary and trading insight.

“We continue to work closely with our clients in navigating the complexities and idiosyncrasies of today's market structure. Andrew's knowledge, industry relationships and insights will further strengthen our client relationships,” said Lonergan.

Weeden also recently formed an execution consulting group, which will educate clients about market structure and the regulatory landscape, as well as partner with clients to evaluate their trading processes and ensure that best execution mandates are being met in an increasingly complex marketplace.

And the firm is pushing into the prime and mini prime services sector. As the bulge bracket focuses on the biggest money managers, Weeden is looking to tap into the vast middle and smaller money managers that have been fallen off the larger banks' radar. To that end, the firm recently has hired Wells Fargo veterans Robert Jordan and Andrew Brown, and Jefferies vet Robert Kalaf in an expansion of the prime broker's sales and client services teams.

“We are growing,” Foster said. “We will selectively hire the right kind of person.”

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