

Andrew Saks-McLeod

Inside View, Retail FX

We talk to Josh Levy of Matchbook FX – the man who started the entire retail FX industry

We can all commend ourselves for being a very forward-thinking group of global industry leaders. The latest developments are key...



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The latest developments are key to being able to retain and engage

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With all of this avant-garde ethos and the constant push for novelty, how many of us actually look back to where the retail FX industry began?

In May this year, I will celebrate my 25th year in the industry, and it most certainly feels like a very long time ago since I spent my apprenticeship at British Telecom in the early 1990s programming PBX switches for middleware systems that connected banks to the electronic markets of the time, and equally as long since configuring my first Cisco switch that transmitted data along a network which was terminated by 10 bit 2 bayonet connectors, which provided the basis for deployable applications for trading desks, built on Windows NT3.51 which is now so archaic that it bears no resemblance to today's topography.

Where did it all start? FX industry pioneer Josh Levy, managing director of algorithmic FX trading & investment company The Tactical Group, helps explain

Indeed, the retail FX business over the last quarter of a century has made such a leap forward that comparing its early stages to the sophistication of today is like comparing a Boeing 787 Dreamliner to a horse & cart.

Perhaps because of the constant drive toward innovation, very little is mentioned about the origin of retail FX, and how the vast array of global FX companies actually came to be in the first place. It was one company, long since consigned to the history books, that encapsulated the movement to bring institutional FX trading into the hands of the retail trader:

Today, I spoke with Matchbook FX co-founder Josh Levy, a charismatic and enthusiastic industry professional whose verve and vigor is just as present today as it was in the late 1990s when he and his colleagues pioneered, along side a handful of others, this fast-paced global business.

Founded in 1999, Matchbook FX was the world's first open and inclusive internet ECN for FX trading, available to all willing FX trading participants including hedge funds, CTAs, banks, corporations and, uniquely at the time, retail FX traders as well.

Matchbook FX was initially conceived by Daniel Uslander and Ron Comerchero, both of whom were commodity futures and equities traders, and former Goldman Sachs New York FX trader Josh Levy. Mark Smith of the Florida based equities-trading technology firm NexTrade ECN also joined their efforts and enlisted Nextrade to contribute technological know-how.

Several months later, GlobalNetFinancial.com, a NASDAQ-traded financial news and technology firm, bought in as the third major equity partner in a three-way joint venture.

As one of the earliest providers of open-access FX e-trading, Matchbook FX received considerable acclaim for its efforts to instigate change and level the playing field in the insular, closed, clubby and highly profitable domain of interbank Forex dealing, likely to the chagrin of the major international money center banks. Matchbook FX was recognized in 2000 as one of Silicon Alley Reporter Magazine's "12 to Watch", its annual listing featuring top internet companies.

automated algorithmic-FX trading via API (Automated Programming Interface). Prior to founding Tactical Asset Management, now part of the broader investment house The Tactical Group, Josh served as the President of CMC Markets in New York

Today during our discussion by phone, Mr. Levy fondly reminisced about the exciting early stages of the retail FX industry that he helped to establish.

“Unfortunately we couldn’t finish, but I consider the work we did to be instrumental to the foundation of the industry” said Mr. Levy as he cast his mind back almost two decades.

“We began at a very pivotal time” he said. I started at Goldman Sachs in 1994 straight out of university. The entire FX industry was going through a pivotal shift from traditional voice brokerage to electronic execution at the time” he recalled.

At that time, EBS [now the electronic brokerage division of British interdealer brokerage ICAP] was just beginning to emerge as the mainstay of liquidity ... but only for certain pairs” said Mr. Levy.

“The Reuters Dealing system had a dominion over certain other pairs, and certain voice brokers controlled others.”

Mr. Levy recalled that the sea-change transition from voice to electronic systems accelerated with the late 1990s / early 2000’s internet and e-commerce explosion.

What was the market like right at the very

Ringett and Indonesian Rupiah, which helped propel USDJPY from the mid 80's up to the mid 140s and then back down again amidst volatility that the FX markets have not seen since. Shortly thereafter, the Nasdaq and related equity markets exploded reaching their infamous apex in the spring of 2000" – Josh Levy

“the whole game changed” said Mr. Levy. And amidst it all, firms such as Matchbook FX, as well as a few other pioneers such as CMC, GFT, Money-Garden (also known as MG Forex) Shalish Capital (now known as FXCM) and Midas (now known as Saxo Bank) were there at

the very beginning.

Technology has evolved in leaps and bounds – however let's remember those who were there from the beginning.

“Fintech” is a modern word which did not exist during the days of Matchbook FX.

Mr. Levy has very fond memories of some of the stalwarts of the industry. “I give a lot of credit to Peter Cruddas of CMC and Drew Niv & William Ahdout and their colleagues at FXCM” he said.

“What FXCM did was pivotal in terms of encouraging the explosive growth of retail

Hailing Drew Niv's contribution to the acceleration of the retail FX industry, Mr. Levy said "Drew was brilliant in that he simplified the concept of trading FX to the benefit of the growth of the industry. He took a product that was complex and esoteric and made it accessible and palatable to a wider retail trading audience.

FXCM standardized the notion of a spot FX contract into bite-sized mini lots where the risk of loss was much lower and residual currency P&L was always reconciled in USD, regardless of which currency pair traded. This practice is commonplace now, but it was innovative back then. By contrast, when Matchbook FX was introduced, it was more of an institutional-minded product where if you wanted to trade in USD or in YEN, for example you could trade either

Think of it as a souped-up EBS interface on steroids. In conventional FX trading, participants trading a set USD amount of USD/JPY were left with a Yen residual which they'd eventually have to translate back into USD for profit-taking or accounting. This was too complicated for retail. Retail traders wanted to buy low, sell high and did not want to manage residual currency profits and losses, or trade in position-sizes that would generate too much risk. And, in light of the events of January 2015 when the Swiss National Bank removed its CHF peg causing massive losses at FXCM and necessitating a \$300 million lifeline from Leucadia National Corp: "Don't bet against FXCM. They'll go the distance" he said.

Why have some original companies not lasted?

"Of all the things that tend to cause the downfall of companies, the most common is disagreement or divorce amongst the partners.

“Over the last 16 years, the original FXCM team are still together they are still a force to be reckoned with” There were a few experienced executives that experimented with retail FX back then, but not many. It is rare that industry takes a look back so far behind. 20 years in this business is more than a lifetime. Mr. Levy concluded by saying that “While this is still a nascent business, the most exciting and nascent businesses in the world have gone through their own share of evolutionary developments.”

“It will be interesting to see what happens next. Volatility has been at an all time low for quite some time now, and although it has picked up somewhat over the last several months, it still remains in its secular trend lower.” Signing off with a fondness for this business, Mr. Levy said “How can you not love this industry? It sits at the intersection of software, technology, trading, and markets.”

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