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Argon Tech Taps Essex Radez For Options Analytics Data

Argon Technology Group, a vendor of options analysis software, last month rolled out market data feeds and ticker plant software from Chicago-based market maker and technology provider Essex Radez, to generate trade indicators for hedge fund clients of Argon's SpreadHunter tool.

Argon signed with Essex Radez at the start of November and began using its data live in SpreadHunter within a matter of days, according to David Janello, president of Argon in Chicago. Argon is using Essex Radez's V-Tick low-latency aggregated datafeed and its Kiss Market Data (KMD) data distribution platform.

The KMD platform is deployed in Argon's data center, the same facility used by Essex Radez, removing any network latency issues by connecting its server cluster running KMD to V-Tick directly via a switch from Essex Radez's servers. SpreadHunter runs on a separate server, fed by KMD.

"Argon was already co-located in the same Equinex data center as us... so all he had to do was call Equinex and get a cross-connect cable from our cage to his. So we had physical connectivity within 24 hours," says Mike Eichin, director of market data technology at Essex Radez. "Then we just had to plug him into our data network and send him our KMD software and API spec, which he was able to program to in a couple of days," he says.

Argon is using the feed to provide data from the Options Price Reporting Authority, the New York Stock Exchange, the American Stock Exchange and Nasdaq. Janello says the vendor is also looking to add data on interest-rate and eurodollar futures and options from the Chicago Mercantile Exchange, as Argon's customers have expressed interest in tools to trade on the CME.

Argon has 14 clients, Janello says, who have traditionally installed the SpreadHunter software onsite in conjunction with their existing datafeeds.

However, the agreement with Essex Radez enables the vendor to offer the tool without the need for a separate datafeed.

Argon does not provide direct access to the market data from V-Tick, or even derived values based on the data. Instead, SpreadHunter merely provides signals that can be used by clients to assist in their options trading strategies.

"Customers just get options analytics. Essex Radez just powers SpreadHunter," Janello says. "My customers don't want the market data, they want the results."

SpreadHunter, which has been available for four years, uses 64 different search types linked to every option spread and option

combination on every tick. Typically, a hedge fund would use the data to feed their volatility surfaces as a means of finding mis-priced volatilities, Janello says. For example, if an actual market price is lower than the fund's forecast, it would see value in buying the option.

"They can take forward implied volatilities on calendar spreads and compare them to the actual price, and where there is divergence, they'll hedge," Janello says. Whereas an options market maker might only specialize in a relatively small number of options and their underlying equities, Argon's hedge fund clients "can often trade thousands of underlyings," he says. "They have massive diversification... and you can't look at all those option chains and option sheets on that many underlyings. With this... the biggest anomalies pop straight to the surface."

The application presents the results in a grid format, which is linked to users' execution systems. Clicking on a symbol automatically loads a detailed quote screen from their execution system provider.

"Not many people are using this type of trading. It requires a certain kind of mindset," Janello says. "But I believe over time it will catch on because of the attractive returns."

Max Bowie