

## The Monday Interview

# A former flash boy – Ari Rubenstein, CEO, Global Trading Systems

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When Ari Rubenstein heard that Michael Lewis was writing a book on his industry, he was overjoyed. A fan of the author, Mr Rubenstein assumed that his tribe of high-frequency traders would be portrayed as underdog heroes who took on and triumphed over a wealthy, entrenched group of Wall Street's elite — much like *Moneyball*, Mr Lewis's 2003 tale of Oakland Athletics upending baseball.

"I thought, finally, someone is going to glorify what we've been able to do. A bunch of people were able to disrupt the industry, create a lot of efficiency, save people a lot of money and get rid of the middlemen in the process — and I was like, 'Holy cow! is he going to call us?'" says Mr Rubenstein. "And then, when I found out that, 'Oh no, you're the villain, I was really surprised."

Mr Lewis's 2014 book *Flash Boys* — or simply "The Book" — as it is glumly referred to by high-frequency traders — was a bombshell, with its accusations of "rigging" the US stock market triggering outrage in the industry and a raft of investigations.

The scrutiny remains but HFTs are undaunted. Mr Rubenstein's company, Global Trading Systems, recently made a bold move that will only further entrench it in the heart of the US stock market. GTS bought Barclays' market-making business at the New York Stock Exchange, the hallowed theatre of stock trading in lower Manhattan,

where the opening bell is rung at 9:30am each day to herald the start of trading.

The acquisition is a curious move, because electronic brokers such as GTS have all but sounded the death knell for human traders. Gone are most of the high-octane traders barking buy and sell orders. They have been replaced by servers and algorithms pioneered by companies such as GTS that now handle about half of all stock trading in the US.

When he co-founded the company, Mr Rubenstein was in the right place at the right time . . . with the right idea. Able to spot the looming "revolution" — the electrification of trading — he and his partners have created a company that accounts for 3 to 5 per cent of the daily turnover of US equities.

A combination of technology and regulatory change about a decade ago ended a duopoly for NYSE and Nasdaq in US cash equities and paved the way for the rise of high-speed, electronic traders. GTS and other HFT companies now dominate the market-making business on the NYSE floor, too.

"We want to do for the capital markets what Amazon did for online commerce," he says. "Amazon connects consumers with merchandise using technology in a very efficient way to save time and money, and similarly we want to connect buyers and sellers, and now issuers, using technology in an efficient way that could save them money."

Born and raised on Long Island, Mr Rubenstein, 44, says he had a middle-class upbringing. His interest in the stock market started in his teens in the 1980s. Excited about a few trading ideas of his own, his father, a high school teacher, let him use the \$4,000 he received at his bar mitzvah, money earmarked for college, to try his hand.

Armed with an account at Charles Schwab (in dad's name) and a QuoTrek — a hand-held device for stock quotes — kept in his school locker, Mr Rubenstein bought calls on shares of Texaco, the US oil retail brand that was rumoured to be the potential target of a takeover.

When Carl Icahn made a bid, the teenager's calls briefly gave him a paper profit of \$30,000. "It doesn't feel right," he told his father at the time, but held on anyway, only to see his options expire as worthless when the deal failed to materialise.

"That experience taught me three things. One, the markets are brutally honest. It doesn't matter how much work you've done, markets are independent of that. Two, you have to trust your gut instincts, sometimes over brainy analysis. And three, losing money is really, really scary and you have to be able to make tough decisions."

His infatuation with markets was rekindled in 1993, just before his final year at the University of Vermont, when Mr Rubenstein made a trip to the NYSE floor to visit a friend's father, a trader for Salomon Brothers. "I just fell in

love,” he says. “I had to be involved in this. It was instant.”

After graduation, he landed a job as a “runner” on the floor of the New York Mercantile Exchange, taking telephone orders to the pit traders. Soon Robert Ahrens, who owned a clearing house, took Mr Rubenstein under his wing and eventually lent him the money for a seat on the New York Cotton Exchange.

Mr Rubenstein saw that much of what was being done could be achieved faster and more efficiently by computers. “I was looking at the floor and seeing human beings quoting and matching trades which one piece of software can do — a matching engine,” he says.

It was not until he met future GTS business partner David Lieberman, a fellow trader, at Pax Clearing in the early 2000s, and then Amit Livnat, the technologist who built the GTS platform, that the idea for the company began to take shape. The founders’ real “Ah-ha!” moment came when the Chicago Mercantile Exchange filed to go public in 2002. Upstarts such as Island, an early electronic trading platform, were already nipping at NYSE’s market share with electronic trading, but exchanges were member owned and not necessarily managed for profit.

“When CME filed their [IPO paperwork] it was very clear that technology was going to drive [exchanges’] business model,” Mr Rubenstein says.

With the rise of high-frequency trading in the early part of the past

decade, Getco, now KCG after its acquisition of Knight Capital, and Tradebot became high-profile names.

But GTS has been raising its profile with the purchase from Barclays and spearheading an industry association called Modern Markets Initiative, after the fallout from *Flash Boys*. Whereas some HFT firms went silent after the book, Mr Rubenstein has been an outspoken proponent of regulation of his industry to boost investor confidence.

“We’ll probably have some rules that will be more modern, that will make people feel safe, and I think that’s a good thing,” he says. “And we will have some friction, we will have unnecessary costs, we’ll have battles about different rules and things like that, but like I said it’s probably a natural thing that just had to happen.”

The purchase of Barclays’ business on the NYSE floor is “a major full-circle moment” for Mr Rubenstein. But why would a high-speed trading firm buy a business that it helped make obsolete?

“We see it flipping to the modern stage of electronic market making,” Mr Rubenstein says of the NYSE floor. “There’s been a big revolution . . . The first part was trading with computers . . . The next phase is: which firms are going to be the principals in that business, who are going to be the long-term participants?”

About a decade into trading’s technological revolution, he says

the companies that will endure need to have scale, agility in technology and a solid reputation. “Designated market makers,” or DMMs, at the NYSE do not just put out buy and sell offers, they also have an obligation to step in and buy or sell shares of their companies.

“It isn’t garage band time any more. Fifteen or 10 years ago in HFT it was a garage band. Now the investors, the institutions that regulate us, they are demanding a very transparent environment. They want the actors that are applying technology to do it responsibly, they want them to be out loud and regulated and part of the conversation.”

## Second opinion: the mentor

From 1994 to 1996, Ari Rubenstein worked as a clerk for Robert Ahrens, a commodities trader and former governor of the New York Board of Trade. “He was like a sponge,” says Mr Ahrens. “He would be constantly peppering me with questions.”

Mr Ahrens says the ability to quickly calculate future prices of everything from gold to cotton distinguished the great floor brokers. “Ari recognised that electronic trading would be the most efficient way to achieve this.”