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Instinet's Purchase Of Bomar Yields Technical Analytics

Reuters' Instinet Corp. last month acquired Bomar Securities L.P. for \$8 million, and will market Bomar's technical analysis products as Instinet Analytics. Initially, Instinet Analytics will be offered as a stand-alone product, but plans call for provision of the service on the same Reuter Terminal platform used by Instinet's automated execution service. Instinet's acquisition of Bomar gives it a technical analysis tool that it hopes traders will use in conjunction with Instinet's own microprocessor-based order execution systems.

The acquisition appears to be aimed at countering the addition of quantitative analytics to the execution services offered by Jefferies & Co.'s Investment Technology Group (ITG). That group's Integrated System Implementation Strategy (ISIS), introduced this spring (*IMT*, April 17), allows customers to monitor the efficiency of transactions.

Bomar, a New York-based broker/dealer established in 1989, markets technical analysis software that runs on 386 IBM-compatible PCs. The service, which currently has around 100 display terminals in place, is aimed at technical traders at institutions and Wall Street firms. Institutional customers can soft-dollar the service against trades executed via Bomar.

Technical analysis is used to identify performance cycles among groups of securities that can be used to anticipate future market moves. Thus, the Bomar software allows managers and traders to monitor and analyze historical and real-time equities market data using traditional, proprietary or customized technical indicators. Users can access and chart Bomar's database of more than 3,000 U.S. stocks going back eight years. Instinet executives decline to comment on the acquisition. In a prepared statement, Instinet's chief executive officer, Michael Sanderson, said "Instinet Analytics will support users' decision-making and encourage trading." Below the Fold

Bomar will be folded into the Instinet organization. Marc Chaikin, a partner at Bomar, has been named senior vice president of Instinet, responsible for Instinet Analytics. Chaikin will report to Hal Rich, chief operating officer at Instinet. Rich reports to Sanderson. Robert Brogan, another partner at Bomar, has been retained as a consultant to Instinet. Brogan's daily list of recommended stocks have been one of the most popular features of the Bomar system, Bomar users say. It isn't clear whether Brogan will continue to issue recommendations. But executives at Instinet say the vendor plans to enhance the service's user-friendliness, and encourage users to make up their own minds about what stocks to buy or sell.

Bomar's technical analysis software currently runs on a 386-based PC. While Instinet is mulling ways to port the Bomar service to the Reuter Terminal--the 386 microprocessor-based display platform it has adopted from Reuters--there are no immediate plans to do so.

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The Bomar service uses real-time equities data from S&P ComStock, a subsidiary of McGraw-Hill Inc. The S&P ComStock digital feed is used to update the system's graphs and charts. For now, Instinet will continue to use the S&P ComStock feed, despite rival offerings from parent Reuters. Bomar recently began an upgrade of its service that increased response times and improved the quality of its graphical applications. This version of the service runs on 486-based PCs. Terminal Interest

The software has been demonstrated to such firms as Boston-based Fidelity Management & Research Corp. and New York-based Warburg, Pincus Counsellors. It isn't clear what impact the migration of the service to 486 processor-based PCs will have on Instinet's plans to port the service to the Reuter Terminal.

The upgraded version of the Bomar software also improves the service's customization capability. Using the original system, traders could set alerts to correspond to certain conditions appropriate for sale or purchase. The new version offers greater flexibility.

"We can program our own strategies," says one analyst testing the new system. "We're very interested in this version. We took a look at the previous Bomar offering and we thought it was pretty rigid."

Another user compared the new capabilities to the analytics offered with Jefferies ITG's Quantex order-routing system. Those facilities, developed by California-based Integrated Analytics Corp., which Jefferies acquired last year, uses so-called fuzzy logic to generate buy and sell recommendations based on a user's predefined trading strategy.

MONEY FLOW

Bomar's services include such analytics as a money-flow application--tracking the amount of cash moving in and out of an instrument. This analysis can provide a basis for other Bomar analytics such as its overbought/oversold indicators. Technical traders compare moving averages of a security's price to generate buy and sell recommendations when predefined limits are breached. The limits--essentially bands on a graph representing the security's historical moving average--are defined according to various analytics including past stock performance.

A trader can look for a divergence between money flow and other Bomar indicators, such as the stock's price breaking the band, when deciding to buy or sell.

Instinet's purchase of Bomar is aimed at supplementing the vendor's execution services. Instinet executives are betting that there is a correlation between traders who are technically oriented and traders apt to use systems such as those Instinet provides.

But some industry observers are not so sure such a correlation exists. "Technical analysis is not necessarily involved with quantitative trading techniques," says one source who tested the system at a major institution. Other sources question whether a trader is interested in technical charting is necessarily interested in alternative execution mechanisms.

Instinet's move to bolster its product line follows on the heels of record volumes posted on its automated execution system during the first half of this year. Instinet's volume was up 70 percent for the year. The increased volume may be the result of Instinet's increasing emphasis on overseas trading (*IMT*, Nov. 15, 1991).

