https://www.wsj.com/articles/high-speed-trading-firm-jump-to-execute-retail-investors-stock-trades-11628760601

◆ WSJ NEWS EXCLUSIVE | FINANCE

High-Speed Trading Firm Jump to Execute Retail Investors' Stock Trades

Plan for retail wholesaler business comes as meme-stock frenzy fuels surge in trading by individual investors

Chicago-based Jump Trading is a big player in global markets, despite its penchant for secrecy.

PHOTO: DANIEL ACKER/BLOOMBERG NEWS

By Alexander Osipovich Follow

Aug. 12, 2021 5:30 am ET

Jump Trading Group, one of the world's largest high-frequency trading firms, will launch a unit that executes stock orders for individual investors, a business that has grown more lucrative for electronic traders as meme-stock mania has fueled a surge in U.S. retail volumes.

Executives at Jump told The Wall Street Journal that the firm is setting up a so-called retail wholesaler business. Wholesalers fill buy and sell orders for the customers of online brokerages such as Robinhood Markets Inc. HOOD +8.94% ▲ and TD Ameritrade.

Chicago-based Jump is a big player in global markets, despite its low profile and penchant for secrecy. The firm is active on futures, options and stock exchanges around the world and is a major trader of Treasurys and cryptocurrencies. It employs more than 900 people and has offices in the U.S., Europe and Asia.

Wholesalers generally make money by collecting a small spread between the buying and selling price of stocks, often just a fraction of a penny per share. Most are units of firms such as Citadel Securities or Virtu Financial Inc. VIRT **-3.49%** ▼ that trade millions of shares each day.

Jump declined to provide the timing of the launch, saying it was still seeking regulatory approvals needed to operate the business. The firm decided several years ago to start a wholesaler, well before the recent trading frenzies in stocks such as GameStop Corp. and AMC Entertainment Holdings Inc., the executives said.

In a potential challenge to Jump's plans, the meme-stock phenomenon has prompted Congress and the Securities and Exchange Commission to scrutinize the handling of retail investors' stock trades. The SEC is reviewing the role of wholesalers as well as payment for order flow—a controversial practice in which wholesalers pay brokers for the right to trade against their customers' orders.

Critics say such payments pose a conflict of interest for brokers by encouraging them to maximize their own revenue rather than look after their customers' best interests. Some critics, including SEC Chairman Gary Gensler, have also voiced concern that wholesaling harms the quality of the U.S. stock market by diverting volumes from public exchanges such as the New York Stock Exchange to less transparent private venues.

Many brokers and traders say the system works well for small investors, citing data that shows retail investors get better prices from wholesalers than they could at exchanges. Payment for order flow also allows brokerages like Robinhood to offer zero-commission trades.

Jump's move doesn't mean it necessarily likes the market's current structure, the executives said. Still, the firm felt it needed to enter the wholesaler business to deepen its presence in the more than 40% of U.S. equities trading volume that takes place off-exchange, said Tonya Adduci, head of global business development at Jump.

'Jump has obviously been a pretty quiet company in the past.'

— David Olsen, the firm's president and chief investment officer

"The utopian market structure for U.S. equities would be a completely lit and transparent market," she said. "Absent that, we're forced to find ways to participate in the markets as they exist today. That means we need to have a footprint in the wholesale market-making business."

There is no guarantee Jump will succeed. The wholesaler business is dominated by Citadel Securities and Virtu, which together handle more than 70% of individual investors' stock orders, according to Bloomberg Intelligence data. Traders say profit margins in the business are thin, favoring the players with the biggest scale. Some firms that tried to launch wholesalers in recent years have failed to gain traction or exited the business.

Earlier this summer, Jump hired wholesaler veteran George Sohos to help run the new initiative. Mr. Sohos was a longtime executive at KCG Holdings, which was acquired by Virtu in 2017. More recently he worked at Citigroup Inc.

Jump already executes crypto trades for Robinhood customers, a partnership that gives Jump a foothold in the online-brokerage world. During the first quarter of this year, 11% of Robinhood's transaction revenue came from Tai Mo Shan Ltd., a Jump affiliate, Robinhood disclosed ahead of its initial public offering in July. That means Jump paid Robinhood about $46 million during the quarter for handling customers' trades in bitcoin and other digital currencies.

Jump was founded in 1999 by two former Chicago Mercantile Exchange floor traders. It was among the first firms to build cross-country microwave networks to zip market data between exchanges at close to light speed, and it is often at the forefront of other technology aimed at shaving fractions of a second off the time it takes to execute trades. Still, Jump executives say the firm isn't all about speed.

"Our ability to make money is based on our research and quantitative horsepower and data science, not our speed," said David Olsen, Jump's president and chief investment officer.

SHARE YOUR THOUGHTS

What do you think about high-frequency traders executing retail investors' stock trades? Join the conversation below.

Privately owned Jump doesn't release its financials and has historically kept out of the public eye. Even after the 2014 publication of Michael Lewis's book "Flash Boys" provoked furious criticism of high-frequency trading, prompting some HFT firms to speak out, Jump avoided publicity. The firm's website features little more than a list of job openings and some legal disclosures.

Still, Jump has grown somewhat more open to public engagement. Some partners in Jump's venture-capital arm have even begun publishing blog posts and recording podcasts. The firm may open up further as it enters businesses such as retail wholesaling, Mr. Olsen suggested.

"Jump has obviously been a pretty quiet company in the past," he said. "As markets evolve and we evolve, we are being a little bit more public."

Write to Alexander Osipovich at alexander.osipovich@dowjones.com

Appeared in the August 13, 2021, print edition as 'High-Speed Trader to Handle Individuals' Orders.'