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Miletus Bets on Next Generation Algorithms

Algorithmic trading is not just for the big boys anymore. And there are estimates that 35 percent to 40 percent of total U.S. equity volume will be traded through algorithms by 2008. Miletus Trading is betting on algorithmic trading taking over the world, and has been doing so since its beginnings two years ago.

Michael Capelli, managing director of Miletus Trading, was running the trading desk at Thales Fund Management, a statistical arbitrage hedge fund, just as the algorithmic trend started. The name Miletus comes from the ancient Greek city of Miletus (now in Turkey). Thales, one of the greatest Greek scholars in geometry and science, was from Miletus.

"I was running the trading desk just as the algorithmic trading boom was beginning and had a lot of other brokers come in talking about their wares," Capelli says.

Looking deeper into these algorithmic offerings, Capelli realized that the algorithms were not very advanced; they mainly relied on historical information and were reacting to events in the marketplace, instead of anticipating them. He saw this as an opportunity to

create a brokerage firm with a better approach to algorithmic trading. The idea was to build algorithms that are more adaptive to changing market conditions.

So Capelli and Richard Johnson, currently the firm's senior managing director for sales and trading, started Miletus Trading in 2004. Their aim was to provide the buy-side with sophisticated, real-time reactive algorithmic trading tools. Capelli and Johnson had worked together previously at specialty agency brokerage Investment Technology Group (ITG), where they were on the institutional sales desk.

Capelli calls Miletus a niche player in the quantitative trading space: "You could say we are a niche broker-dealer. Our specialty is in designing algorithmic trading solutions for our clients, as well as pre- and post-trade analytics." The firm's client base is institutional investors, including hedge funds. When the firm was launched, behemoth brokerages including Credit Suisse, ITG, Goldman Sachs and Morgan Stanley were already offering some standard algorithms, so Miletus did not

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