



CFAA Event Note 7/18/2012

“Market Segmentation of US Equity and Options Market”

With a PhD in Theoretical Physics, Dr. Alex Tartakovsky has expanded his horizons from researching the physics of stochastic processes and superconductivity to becoming a Financial Engineer Manager at Spot Trading, LLC. Such a unique background had everyone in attendance for the CFAA’s July 18th event, gravitating towards Dr. Tartakovsky’s every word as he focused the discussion on pricing and risk management related to volatility trading.

Speaking on behalf of Dr. Anlong Li, Dr. Tartakovsky came well prepared with a data and graph driven presentation covering trends over the last four years on US equities, options markets, and dividend capture trades. But, before diving into the core of the presentation Dr. Tartakovsky spoke briefly on the growth of volume trading of equities and options since 2008, stating that the markets have become less concentrated over the years.



What is the reason for this divergence? The answer is “market segmentation”. These markets are becoming increasingly fragmenting and the market concentration is falling primarily driven by the formation of new exchanges. The creation of these new exchanges is due in part to, “trying to find niches that are not established by larger indices,” says Dr. Tartakovsky, “and being able to make the trades more tailored to you.” This market segmentation has created more competitive prices leading to efficiency and innovation. The transition from the exchange floor to an electronic trading platform is a driving force of this segmentation but still allows these markets to be virtually connected.

An important key factor towards the measurement of this market segmentation as well as the main topic for this event discussion was the Herfindahl-Hirschman Index (HHI)



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which reflects the concentration of these markets. The HHI has dropped 10% over the last four years for listed options, indicating that the market is becoming less concentrated.



With the extensive expertise Dr. Tartakovsky has with regards to trading in volatile markets, he was able to simplify and analyze key points on the presented charts. An important question raised during the event was, “What is causing these spikes in HHI for US equities?” The cause of these spikes is due to dividend-capture trades. Because of the investors’ or traders’ choice, or failure to exercise an option ex-dividend date, they leave dividends on the table which can be captured by simultaneous long and short positions on the options. However, this can only be obtained exclusively by market makers, of which many firms can be seen engaging in this strategy in the Philadelphia Exchange where transaction costs are capped at a certain volume. The unique fee structure at the Philadelphia Exchange has created much controversy as it creates uneven playing field among the exchanges.



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As yet another successful CFAA event was held, we want to thank Dr. Tartakovsky for his insight on listed US equity option markets and his thorough analysis of the market segmentation. All in attendance were thrilled to learn about such a hot topic and we encourage everyone to attend our next event Thursday, August 2nd on the topic of “Current Trend and Outlook of the Chinese IPO and M&A Market” with guest speaker Shi Tiejun, former member of the China NASDAQ IPOs Audit Committee at China Securities Regulatory Commission.

About CFAA

Chinese Finance Association of America (CFAA) is an independent not-for-profit, non-partisan organization committed to promoting educational and cultural exchange among finance professionals between the United States and Greater China through facilitating communication and the exchange of ideas in the financial industry. Incorporated and headquartered in Chicago, Illinois, CFAA is aimed to serve Chinese finance professionals and others who are interested in the financial industry of Greater China. Please visit our website www.ChineseFinanceAssociation.org for more information about CFAA. To become a CFAA member, or to renew your CFAA membership and make your membership payment, please go to the [membership section](#) on our website. If you are interested in the volunteering opportunities at CFAA, please submit the [volunteer and staff application form](#). For global career opportunities in



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