

GAIN

lets you
trade foreign currency
(just like the big boys)

Like many Internet startups, GAIN Capital's business plan calls for the new foreign exchange firm to lose money. But not for long.

Founded in 1999, GAIN Capital is elbowing into one of the most competitive and sophisticated markets in the world: foreign exchange. It offers commission-free trading 24 hours a day to corporations, smaller hedge funds and individual traders at the narrow spreads that banks typically reserve for their very largest customers. GAIN acts as a market maker, quoting bid and offer prices and allowing clients to execute transactions of \$100,000 to \$10 million at up to 50:1 leverage. It's the job of GAIN's traders to make the markets and manage GAIN's positions and risk exposure. Typically, GAIN traders aggregate client deal flow (GAIN's average trade is about \$400,000) and access one of GAIN's six liquidity sources with much larger deal sizes, and only when necessary.

"We are offering 5-pip wide markets 24 hours a day, which is harder than it looks," said Mark Galant, the company's 42-year old founder and CEO. "So it's imperative to our success that we have good, experienced traders who can manage the flows properly and not go to our liquidity providers at every turn. Our traders have an average of 15 years experience."

With those spreads, GAIN Capital needs cost effective technology. It runs its operations on Windows NT and SQL Server.

"We use push technology to publish live prices to our client base," Galant added, "We offer one universal price for each currency pair and allow our clients to deal



directly from those prices, with complete anonymity. This means we can't add pips to our price depending on a client's open position, something that almost every dealer on the street tries to do."

"Not having legacy technology is part of our cost advantage," said Colin Mitchell, GAIN's chief technology officer, who knows from experience at Westdeutsche Landesbank and Banque Paribas Capital Markets just what the costs of carrying older architectures can be. GAIN Capital has built its system on message-based architecture and a Java front-end so it is platform independent.

"We don't care if we are running on Intel or RISC-based hardware, or what lan-

guages are being used. Our architecture allows us to be flexible."

GAIN's choice of technology? It's Intel processors running a mix of Windows NT and Windows 2000 on HP Web servers and SQL Server 7.0. The company has set a benchmark of 10,000 transactions per hour and can achieve that with its existing systems, consisting of dual-processor and quad-processor servers. "We're very happy with the SQL 7 performance," Mitchell added. "And we are especially happy with the ease of administration and cost of ownership." The real test will come when GAIN Capital starts handling large numbers of transactions;

Gain Capital

GAIN is evaluating Windows 2000 Data Center Edition, still in beta, to see how well it supports clustering, he added.

Galant expects the company will need the power that Windows 2000 provides as trading increases. Already, the company is taking trades from Europe, Asia and the Middle East, where traders are more familiar with FX markets than many Americans are. About two-thirds of the traders are individuals, but 75 percent of the money is from institutions, since individuals' trades tend to be smaller.

American day traders should find the FX markets appealing because the markets offer high leverage, 24-hour trading, and spreads that are one-tenth the size of the equity markets, Galant added.

For GAIN to succeed, its business model calls for critical mass and deal flows.

"Until we get enough deal flow we aren't

scheduled to make any profits because our spreads are so tight," explained Galant. "Once we achieve critical mass, and our clients are regularly crossing our spreads, profitability will increase."

Just two months after its May launch, GAIN Capital was ahead of projections, breaking even on its trading operation, not taking into account the firm's overhead.

 www.gaincapital.com

Galant, formerly vice chairman of FNX Limited, a provider of trading and risk management systems, has experience running FX options trading at Credit Suisse and Chemical Bank. He says GAIN Capital is doing for the \$1.5 trillion per day FX market what E*Trade, AmeriTrade and Datek did for equities.

"We aren't directly competing with the banks because their markets are large corporations and hedge funds. We are going after the small hedge funds, small institutions and day traders."

To provide full service, GAIN Capital recently licensed Market News International's Bullet Points product to provide its clients with real-time FX news. The product has been fully integrated into GAIN's Java-enabled trading application.

"Professional market participants use Market News International because it has a reputation for fast, detailed, and above all, reliable market information," said Glenn Stevens, head of sales and trading for GAIN Capital. GAIN's trading service has been offered to the more than 140,000 worldwide participants on the Bloomberg financial network since June, under FXGAIN. **M**
