



OCCUPATIONAL ALERT

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Release Date September 12, 2007

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Occupation Where have all the Pit Traders gone?

Update: The Chicago Board of Options Exchange (CBOE) has certainly been the most progressive exchange with respect to embracing new technology. Indeed they started using handhelds in 1993, and they went to hybrid (*side by side trading*) in 2003 as a means of more effectively managing the trading of these sophisticated financial contracts. Additionally the move to electronic trading was pushed as a result of increased competition and volatility emanating from a variety of issues; including: **Regulatory pressures** that allowed the more popular stock options to be listed on more than one exchange, which resulted in exchanges cutting their fees to almost nothing to compete for market share. **New competition** from the May 2000 launch of the all electronic options exchange called International Securities Exchange (ISE), which allowed financial information to be more readily available to all market participants (not just professional Traders) and further decreased trading costs by eliminating some back office inefficiencies. **Increased volatility** brought on by economic problems in Southeast Asia in 1997 and the U.S.'s 1998 hedge fund credit crisis.

On 7/17/07 I had the opportunity to go onto the CBOE floor. Since all *single equity options* are now traded electronically, it was observed that Market Makers trade electronically from stations in the middle of the trading floor, Brokers work from trading stations ringing the outer portion of the floor, and only 2 open outcry pits remain to handle index options. The 2 small open outcry trading pits left in operation are the OEX (*S&P 100 Index Options*) and the SPX (*S&P 500 Index Options*). In March of 2005 the CBOE grandfathered On-Floor Market Makers who met an established criteria to a physical post/station on the trading floor, and those that did not meet the criteria were assigned to a Remote Market Maker (RMM) status so they could do *off the floor trading*.

In discussions with my broker network, it seems that the majority of Independent Traders became employees of large trading groups (such as Timber Hill, Hull, etc.). Since the trading spreads had become so thin (dropping from \$1.00 to \$.10 per trade) most of Independent Traders found it was no longer lucrative to maintain their self employed status since they could not manage trading 10 times their previous volume to make up the \$.90 loss per trade. Trading larger volumes means much larger margins (both initial margins and maintenance margins) are needed to cover your trades, and you are incurring much bigger risks in your trading decisions. Thus it is not surprising that most of the Independent Options Traders moved to large trading groups that were able to sustain the huge volume of trades needed to remain lucrative despite the decreased earnings per contract.

I was able to see that the CBOE's physical trading floor is indeed very much alive with significantly greater trading volumes being recorded each year → and it is *almost all electronic*.