

GUEST ARTICLE

Trading & Risk Management Systems for Hedge Funds

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An advanced trading and risk system could make all the difference

Hedge Funds are drawn to the energy markets because acute volatility means opportunity. With growing Asian demand, limited ability to increase production in the short term and geo-political unrest, high volatility will remain for the foreseeable future. Funds have a short-term need to quickly get a software solution in place to support the trade desk, but at the same time must make technology decisions with a view to future requirements. It's important to have the forethought to understand the needs that business growth will cause and find the software solution that is architected with the flexibility to support a rapidly transforming business and market.

Spreadsheets are not the answer

While spreadsheet models can have benefits in terms of flexibility and reporting for an individual user, they "fall apart" when used as an enterprise tool because they are neither designed nor developed with the rigor of application development. Mistakes include input errors, logic errors, interface errors, and wrong cell range errors that put decisions and dollars at risk. Private spreadsheets are neither synchronized nor is the information contained in them shared with the rest of the trade floor. The greatest cost of spreadsheets might be the implicit cost of poor decisions that are based on faulty data; studies have shown that over 90% of spreadsheets, when examined, contain errors.

Buying criteria that will ensure you don't hit a 'wall'

At Triple Point, in working with many of the leading hedge funds and financial institutions, we have found that flexibility to keep pace and change is an extremely important factor in choosing a software platform. Hedge funds are extremely nimble in their approach to the market and require software to enable, not impede, their business.



Many hedge funds start out today trading a single commodity, such as power or natural gas, but want to keep their options open to trade additional commodities tomorrow. From a software standpoint it is important to have a common platform that can handle multiple commodities while providing unique functionality required by each asset class. The alternative, using a separate system to support each commodity is problematic for aggregated risk management and back office efficiency.

A number of energy hedge fund entered the market trading only financial instruments. However, they want the future ability to trade the physical side if and when it fits their business model. The software to support physical trading and scheduling is complex and this should be an important consideration in choosing a technology partner.

There are very few 'givens' in this volatile market, but we can be confident that new and more complex derivative instruments will constantly be created and you should ensure that your solution provider has the proven ability, skills and architecture to easily and quickly add new investment types.

Your software platform should have unlimited scalability to grow with business and transaction expansion.

Flexibility in the deployment model is important to users. They often want to start with an Application Service Provider (ASP) model where they pay a monthly fee and the vendor takes on the burden of supporting the software, but at the same time they retain the option to purchase the

software in the future. The ASP model allows clients to focus on their core competence. In some cases, they have not yet hired the Information Technology (IT) skills to support purchased software, but plan to do so in the future. Whether you choose to use an ASP deployment model for strategic or infrastructure reasons, make sure you have the option to purchase the software down the road.

The good news

The good news is that Triple Point's Commodity XL™ is a cross-commodity trading and risk management system that is designed to profitably manage the complex, ever-changing requirements of physical and financial markets. It integrates front-to-back office and delivers best-of-breed functionality for the supply, trading, marketing and movement of commodities on a single platform. Commodity XL has the full breadth of function to meet specific commodity trading requirements and provide a single, real-time view of supply and delivery, financial risk and market exposure either in a single market or across all commodities and markets. It seamlessly integrates with spreadsheets allowing individuals to use the productivity tools they prefer while ensuring the business system supports the needs of the enterprise. Triple Point's solution provides sophisticated decision support tools to win in the market and delivers all the controls required to run your business.

**For more information, contact me at
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