

Exchange Traded Fund Arbitrage

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Many Index Exchange Traded Funds (ETF's) have emerged on the scene over the past few years and their popularity is enormous. ETF's are essentially passive index funds that allow investors to trade a portfolio of securities in a single transaction. A concept in the creation of ETF's was to build in an opportunity for ETF Market Makers to create and redeem shares of the ETFs in order to arbitrage any premiums or discounts to the underlying net asset value (NAV). This arbitraging is beneficial to ETF investors because it keeps the price of the fund in line with the NAV and prevents specialists from making unfair markets. It is capitalism in a very pure form and one of the few instances you will find where arbitrage is intentionally used as a tool to maintain a natural balance.

The ETF arbitrage game is a mature one. In most cases you will find that the ETF's are held very much in line with the NAV because of the arbitrage opportunity and the thousands of people attempting to capture a small edge. It is also typical to find that the whole process of ETF arbitrage is very expensive, requires a large amount of capital, and comes with very real risks that can often more than offset any potential gain. In short, by no means is there free money lying around. That said, from time to time opportunities do exist and as with many success stories, the one with a creative approach can often find opportunity where others do not.

In this project you will start by understanding all there is to know about the world of ETF's. This includes how they are priced, how expenses are treated, how dividends flow through or do not flow through, and the entire creation/redemption process. As each ETF could, in theory, have a unique way in which it is managed, we will attempt to boil them down to their common denominators and categorize what is unique to the lowest level possible. Once this is done, we will build a model to price the ETF's in a manor suitable for the ETF arbitrage game. When complete and proven accurate, with our guidance, you will begin to look at more creative ways to profit from this trade.

This project will involve the use of our proprietary API's for both real time pricing and order management. C++ development skills are not required, but would add a powerful element to the team. At a minimum proficiency in Excel is a must for at least one team member. We are a boutique proprietary electronic trading firm in downtown Chicago. We have developed all of our trading software internally from the middleware up. Our partners/traders have many years of relevant trading experience around the globe with several of the larger trading houses. Our mission is to succeed through innovation, in an environment where culture has an equal weight to profit in new business decisions, and large scale corporate politics and bureaucracy will never inhibit our evolution.