Jan 12th, 2015 - Sal Arnuk started electronic trading some 20 years ago at Instinet, where he met Joe Saluzzi. The pair have since started their own brokerage, Themis Trading, and become big voices in the market structure debate - attracting praise and criticism alike for taking a stance against increasing complexity in the equities markets.

Automated Trader stopped by Themis Trading's offices, a slice of Wall Street located just off an idyllic New Jersey Main Street, to talk to Arnuk about his biggest beefs and how he navigates in the darkest pools.

Automated Trader: You have become known for being a vocal critic of US market structure. How did that start?

Sal Arnuk: The market was changing and adapting, and there were people figuring it out while we were focusing on what a company's earnings were going to be. But people were learning to master the microstructure, and we were caught behind the times.

So we very quickly educated ourselves and started improving the way we interacted with the market.

When we dug into this, we found things that were hurting our execution - order types, hidden order leakage. The first things we found were pretty unsophisticated things we were doing wrong.

We were vocal about those things we found with our clients, and even on an STA (Security Traders Association) conference call. We also wrote a whitepaper or two, and some people read (them), and a lot of people didn't.

All of a sudden, a Goldman Sachs trader gets arrested at Newark airport and everybody wants to know what the hell high frequency trading is. So our whitepaper goes viral, we started our blog, we wrote our book "Broken Markets". So we have been trying to broaden the debate.

AT: What do you say to your own critics for taking that stance?
Ironically, when people talk about us as “old timers” or saying that we can’t compete, in our entire career we were never market makers, we were never specialists on the floor defending the specialist system, defending the market maker spreads. Of course not. Our whole business, our whole careers at Instinet, is built on selling against those wide spreads, taking out the middle man and bringing buyers and sellers together directly, sourcing liquidity in the cleanest way possible and leveraging technology to do it.

We feel that somewhere technology took a wrong turn and inserted the maximum number of intermediaries between natural buyers and sellers, instead of bringing them together directly, and it led to all kinds of distortions - especially with payment for order flow - which is why the markets have gotten complex.

AT: How does Themis Trading fit in as a brokerage in this environment?

SA: We have 40 or 50 institutional accounts, which haven’t really changed over the course of 15 years. We are proud of that. Until 2006, no one had ever heard of us and we loved that, because we have a very loyal, small group of clients. We will never be Goldman Sachs, we will never be a large brokerage firm. A lot of that is by choice, and a lot of it is because we believe our business model is not scalable. Everything about Wall Street is: find a niche and scale it. We fill a niche but we recognise that it is not scalable because to replicate what I do, and what (our team) does, to try to create an algo that thinks like we do defeats the purpose. Sooner or later that algo becomes predictable and predictability is the enemy...

Everything about how we execute here is trying to execute in the cleanest way possible, take out the intermediaries and we source liquidity wherever it resides. I don’t care if it is the New York Stock Exchange, IEx or a market place in Kabul. Wherever the liquidity is, we want to find out without going through 19 hops to get there, because along those 19 hops bread crumbs get dropped. There is slippage. There is information leakage. And as a result market impact suffers.

To get an order to buy (thousands of) shares, you can’t just come in and post that on an exchange, and at the same time, if I were just to throw it in the average broker-dealer smart order router, that order is going to get shown in millisecond time periods to an ELP (electronic liquidity provider). It’s going to get winged around through a pinwheel of other dark pools. So, if I just go in to a dark router and think that my order is dark, it is really naïve.

AT: So what is your approach to execution?

SA: We have direct pipes to exchanges. We also have third party pipes to exchanges, so we use Knight's pipes, or Credit Suisse’s suite of tools for example. We probably have 10 different third party broker dealer suites as well as our own direct connections, including IEx, BIDS, Level ATS.

The way we execute changes from order to order, but always in the back of our minds, we need to be unpredictable. I would love nothing more for my own pocketbook to create a good housekeeping seal-of-approval algo and then shop it out. But that is just not something that I think would be effective. As soon as you make it systematic, it is going to get figured out by some of the very savvy people in the market place...