

α Alpha Chronicles: A Sharpe Read

6 July 2018

Proprietary Trading Firm Grasshopper Leaps to New Paradigm



Veteran trader John Lin knows a thing or two about the long road to success in the financial industry.

In 2005, Singapore Exchange closed its last remaining derivative pit, going fully electronic. That was a significant turning point for many traders - switching from colourful trading jackets, shouting bids and offers, fast and furious hand-signals to the cold, digital efficiency of a mouse-click, and then lines of code.

The Bachelor of Science graduate from Cornell University founded his company - Grasshopper - during this transition, growing it into a technology and data firm, and using an algorithmic trading system¹ to transact hundreds of thousands of orders a day across the globe.

The journey, however, was an arduous one, and chock-a-block with speed bumps.

"When I pulled together a team of traders, I decided to call ourselves Grasshopper, which was my nickname in school," recalled Lin, who held arbitrageur and market-making roles with Chicago's First Continental Trading and Nikko Futures Singapore between 1990 and 1998.

The moniker has its roots in the 1970s western TV series "Kung Fu", starring David Carradine as the character Kwai Chang Caine. Caine was dubbed "Grasshopper" by his Shaolin martial arts master, reflecting his status as an underdog and stranger in a new land, searching for his destiny.

This was not unlike how Lin's business began. "We were quirky, and didn't want to be beholden to the status quo. Our vision was to become global market makers, but at that time, no one wanted to deal with us - we were often politely shown the door after a 15-minute meeting."

Embracing Disruption

Over years of electronic trading, Grasshopper survived a tsunami of new technologies that would obliterate the "old ways", and cause numerous waves of disruption within the realm of electronic trades as well.

"To survive, the thresholds of speed went from "blink of an eye" to sub-millionths of a second. In fact, my team did a lot more than survive - we thrived," he added.

Today, Grasshopper remains one of Asia's few relevant proprietary trading firms. It is a crucial player and major liquidity provider in the global equity and futures markets, transacting over US\$500 billion in notional value of trades every month.

Lin attributes Grasshopper's success to the time-tested trader discipline of observation without ego. "Above and beyond all else, we believe in listening to the market, and what it is telling you."

And given the technology-driven approach of modern or algo trading, Grasshopper is continually investing in its people and capabilities.

"Yes, this means algo development, low latency, and big data, but it also means training our people with an unwavering ethos of self-imposed innovation, both continuous and disruptive," he added.

Greed and Fear

As he continues to strengthen the Grasshopper team, Lin is acutely aware of the pitfalls of trading, singling out ego and bias as major stumbling blocks.

"Biases are predispositions that can influence our decision making. Not all bias is bad, but unwarranted and unconscious bias affects how we process information, make decisions, and construct strategies. We can't afford to be small-minded in our thinking," he pointed out.

Despite the advances that the human race has achieved, society is still beset by financial scandals and ineffective ecosystems. Why?

"It's because of our own tendency towards fear and greed - in other words: ego," he added.

"To be able to change and adapt at the pace required to thrive in this ever-changing world, we need to put aside bias and ego to make the difficult decisions."

As an Asian liquidity provider of scale, with the technology and know-how to flourish in this industry, Grasshopper seeks to be a valued partner to governments and regulators, contributing to the development of markets and a healthy ecosystem in the region. This includes encouraging local talent and technological innovation, Lin said.

With that in mind, Grasshopper has joined Singapore Exchange Securities Trading (SGX-ST) as a market maker, in a bid to boost liquidity and market-making capability for cash equities trading on the exchange.

"As a home-grown company, we're honoured to partner with SGX on their cash equity platform. We want to support our local market, add to the growth of market activity, and boost trading volume," he noted.

Meanwhile, Lin is not one to let the grass grow under his feet - he's already gravitating towards the next tech evolution. The Taekwondo black belt holder firmly believes that technology will always challenge the status quo, while addressing the under-served.

"I've been disrupted several times in my career - moving from open-outcry to electronic trading is the obvious one, but within the last decade of electronic trading, there have been multiple huge shifts, driven by innovation, regulation, or market needs," he said.

"The tipping point is close, and once crossed, there will be no going back."

'Dead Man Walking'

And preliminary signs of a superior new business paradigm are already emerging.

"We are big believers in the transformational power of blockchain¹ technology. Some see this as stupid and hyped, but for me, it's too compelling not to partake," Lin said.

"We also see a massive shift of resources and brainpower towards this area, an increasing institutional demand to trade cryptocurrencies¹, and a need for market-making in ICO¹ tokens," he said, referring to Initial Coin Offering, an unregulated means by which funds are raised for a new cryptocurrency venture.

"To-date, the market infrastructure is inefficient and scattered - and that is an opportunity."

Aiming to play an active role in developing a more efficient and healthy cryptocurrency ecosystem, Grasshopper is applying its trading and technology expertise to develop an over-the-counter (OTC) cryptocurrency marketplace. It has set up a new company - Tilde - which will bring education, efficient execution and competitive pricing to the obscure cryptocurrency market.

"Blockchain technology and cryptocurrencies are here to stay," Lin emphasised. "My team and I are convinced that these technologies will revolutionise our world in the next decade - for the better."

As the trading infrastructure around cryptocurrency shifts from the fringes to the mainstream, Grasshopper plans to bring its integrity and trading expertise to these markets.

"Our goal is not only to offer outstanding execution for our clients, but to help build sustainable, liquid markets based on a new - and sound - market structure. It is through Tilde that we, together with our clients, will invest in this future," said Lin.

"The status quo is already a "dead man walking"."

Grasshopper Asia

Grasshopper bills itself as a small giant in the proprietary trading space, with an unbroken record of consistency and profitability that guides its future success. Founded in Singapore, the firm trades into major derivatives exchanges across Asia and the United States. While hardware, software, and algorithmic tools are part of its DNA, its potency derives from a culture of tireless observation, strategic risk-taking, and risk management.

The company website is: www.grasshopperasia.com

¹Definitions of the Day

Algorithmic Trading

Also referred to as algo trading and black box trading, it is a system that utilises advanced and complex mathematical models/formulas to make high-speed decisions and transactions in financial markets. Algo trading is most commonly used by institutional investors due to the large amount of shares they purchase, and complex algorithms allow such investors to obtain the best possible price, without significantly affecting the stock price and increasing purchasing costs.

Blockchain

It is a digitised, decentralised, public ledger of all cryptocurrency transactions, and was originally developed as the accounting method for the virtual currency Bitcoin. As completed blocks (the most recent transactions) are recorded and added to it in chronological order, it is constantly growing and allows market participants to keep track of digital currency transactions without central recordkeeping. Each node (a computer connected to the network) gets a copy of the blockchain, which is downloaded automatically.

Cryptocurrency

It is a digital or virtual currency that uses cryptography for security, and is difficult to counterfeit because of this feature. A defining feature of a cryptocurrency is its organic nature - it is not issued by any central authority, rendering it theoretically immune to government interference or manipulation. Bitcoin - a digital currency created in 2009 - was the first cryptocurrency.

Initial Coin Offering

An unregulated means by which funds are raised for a new cryptocurrency venture, an ICO is used by startups to bypass the rigorous and regulated capital-raising process required by venture capitalists or banks. In an ICO campaign, a percentage of the cryptocurrency is sold to early backers of the project in exchange for legal tender or other cryptocurrencies such as Bitcoin.

Source: Investopedia



Text: **Jennifer LH Tan**

Photo: **Company**

Alpha Chronicles is a regular column on SGX's My Gateway website that aims to profile best-in-class traders and asset managers in the financial industry. The excess return of a fund relative to that of its benchmark is its alpha, while the Sharpe ratio - developed by Nobel Laureate William Sharpe - measures the fund's risk-adjusted returns.

For previous editions of Alpha Chronicles: A Sharpe Read, please click [here](#) and scroll to the bottom.

For more information, or if you would like your asset managers to be featured on SGX Market Dialogues, please send suggestions to jennifer.tan@sgx.com.

Singapore Exchange

2 Shenton Way,
#02-02 SGX Centre 1,
Singapore 068804
main: +65 6236 8888



sgx.com

This document is not intended for distribution to, or for use by or to be acted on by any person or entity located in any jurisdiction where such distribution, use or action would be contrary to applicable laws or regulations or would subject Singapore Exchange Limited ("SGX") to any registration or licensing requirement. This document is not an offer or solicitation to buy or sell, nor financial advice or recommendation for any investment product. This document is for general circulation only. It does not address the specific investment objectives, financial situation or particular needs of any person. Advice should be sought from a financial adviser regarding the suitability of any investment product before investing or adopting any investment strategies. Use of and/or reliance on this document is entirely at the reader's own risk. Further information on this investment product may be obtained from www.sgx.com. Investment products are subject to significant investment risks, including the possible loss of the principal amount invested. **Past performance of investment products is not indicative of their future performance. Examples provided are for illustrative purposes only.** While each of SGX and its affiliates (collectively, the "SGX Group Companies") have taken reasonable care to ensure the accuracy and completeness of the information provided, each of the SGX Group Companies disclaims any and all guarantees, representations and warranties, expressed or implied, in relation to this document and shall not be responsible or liable (whether under contract, tort (including negligence) or otherwise) for any loss or damage of any kind (whether direct, indirect or consequential losses or other economic loss of any kind, including without limitation loss of profit, loss of reputation and loss of opportunity) suffered or incurred by any person due to any omission, error, inaccuracy, incompleteness, or otherwise, any reliance on such information, or arising from and/or in connection with this document. The information in this document may have been obtained via third party sources and which have not been independently verified by any SGX Group Company. No SGX Group Company endorses or shall be liable for the content of information provided by third parties. The SGX Group Companies may deal in investment products in the usual course of their business, and may be on the opposite side of any trades. SGX is an exempt financial adviser under the Financial Advisers Act (Cap. 110) of Singapore. The information in this document is subject to change without notice. This document shall not be reproduced, republished, uploaded, linked, posted, transmitted, adapted, copied, translated, modified, edited or otherwise displayed or distributed in any manner without SGX's prior written consent.

[Unsubscribe](#) | [Sign up for mailing list](#)

Copyright © SGX. All rights reserved.