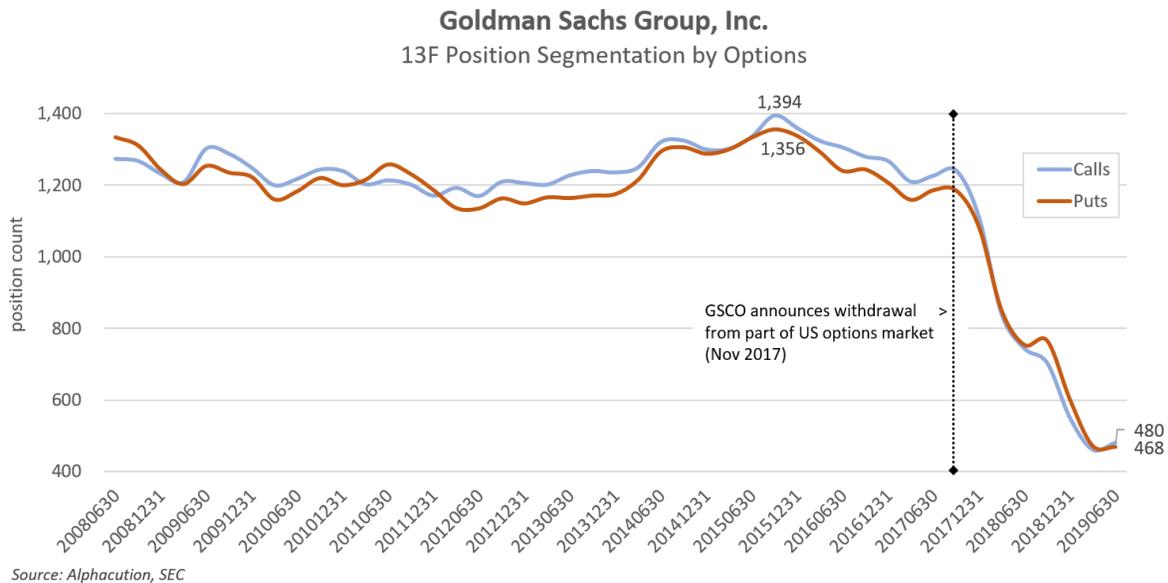


One by one, those willing to stand and make markets in options are – uh – taking a knee.

“Sometimes it is the people no one imagines anything of who do the things that no one can imagine.” – Alan Turing

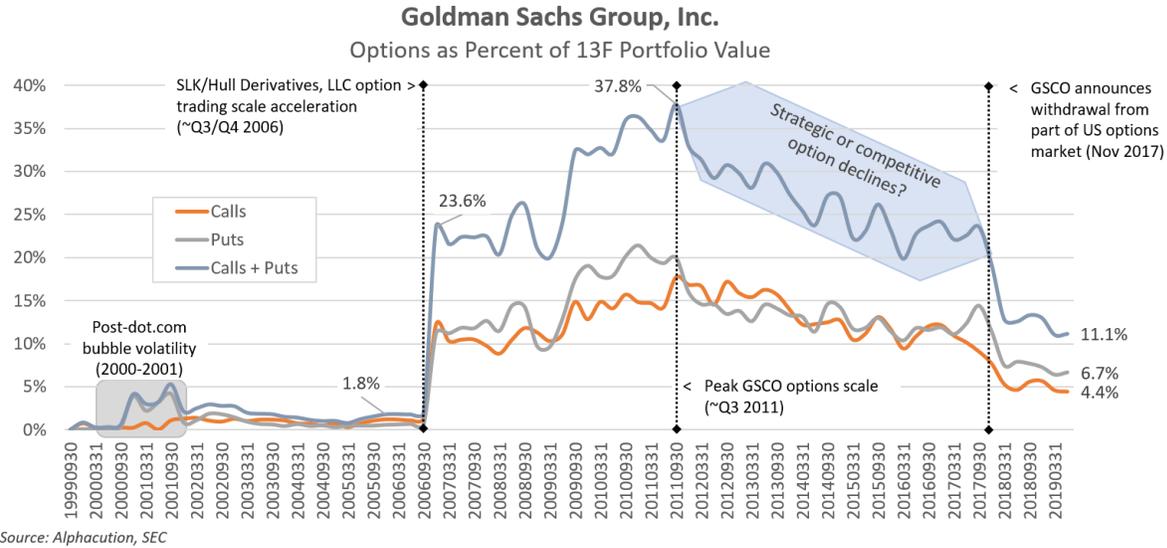
One by one, those willing to stand and make markets in options are – uh – taking a knee. Back in December (2019), Barclays became the latest in a long string of players – big and not-so-big – to punt their options trading business to a willing buyer before any more value evaporated. So, we thought to take a closer look at what patterns or signals might exist, if any, to detect moves like this.

Here’s the setup: It turns out that in a Feed post entitled, [“Goldman Sachs and the Long Arc of Hull Trading,”](#) we have some useful benchmarking to draw from to frame Barclays’ ultimate decision. In the chart, below, Alphacution presents total 13F options position counts for parent entity, Goldman Sachs Group, Inc., over the 45-quarter period beginning Q2 2008. Note: The vast majority of these position reside in the broker-dealer entity, Goldman Sachs & Co. (GSCO).

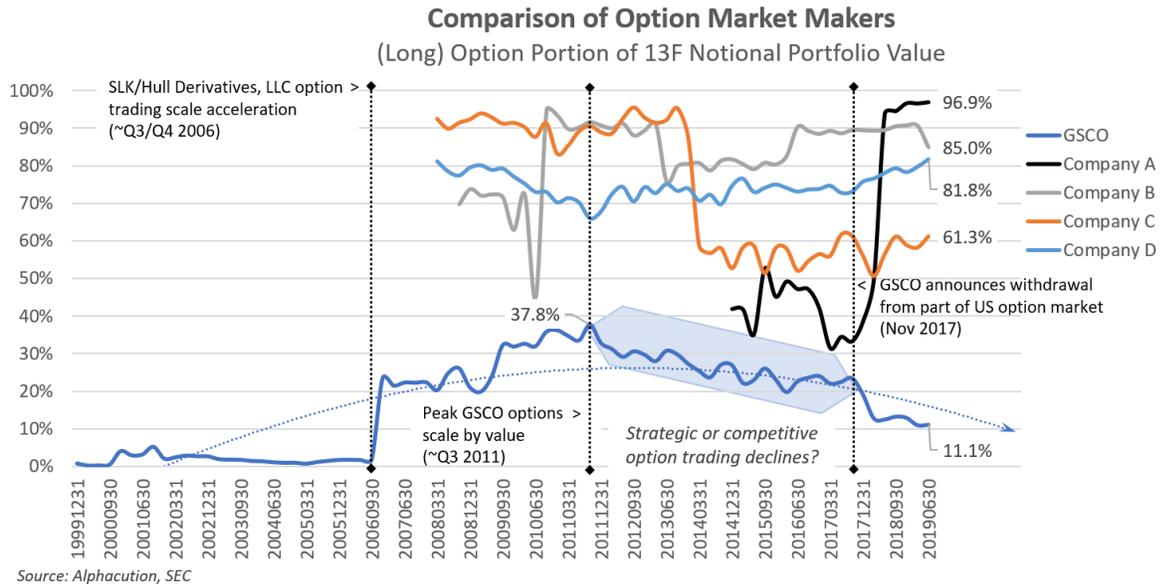


Here, it is clear that option position counts do not deviate from a historical range of ~1,200 – 1,400 names in which there are both (long) call and (long) put positions prior to the announcement in November 2017 that GSCO would be withdrawing from part of the US options market. Of course, thereafter, we see these position counts decline precipitously – as one might expect.

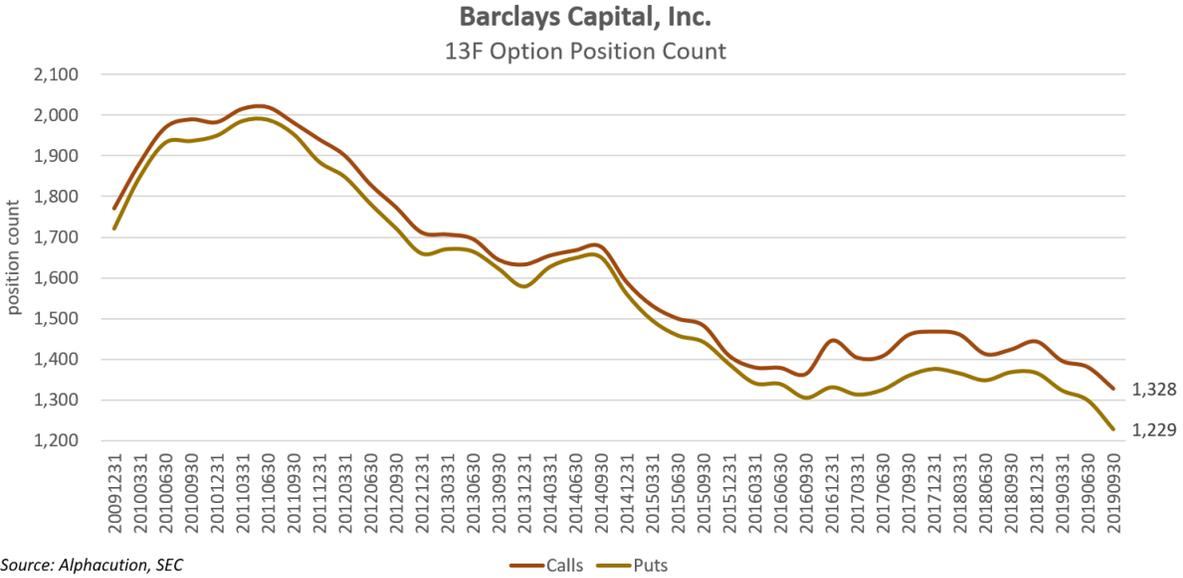
Now, when we add the *value* of option positions, the plot thickens: After peaking in Q3 2011, the value of GSCO’s option book declines from nearly 38% to about 20% of total 13F portfolio value in the lead up to the Nov 2017 announcement – and all while maintaining similar position counts. See chart below.



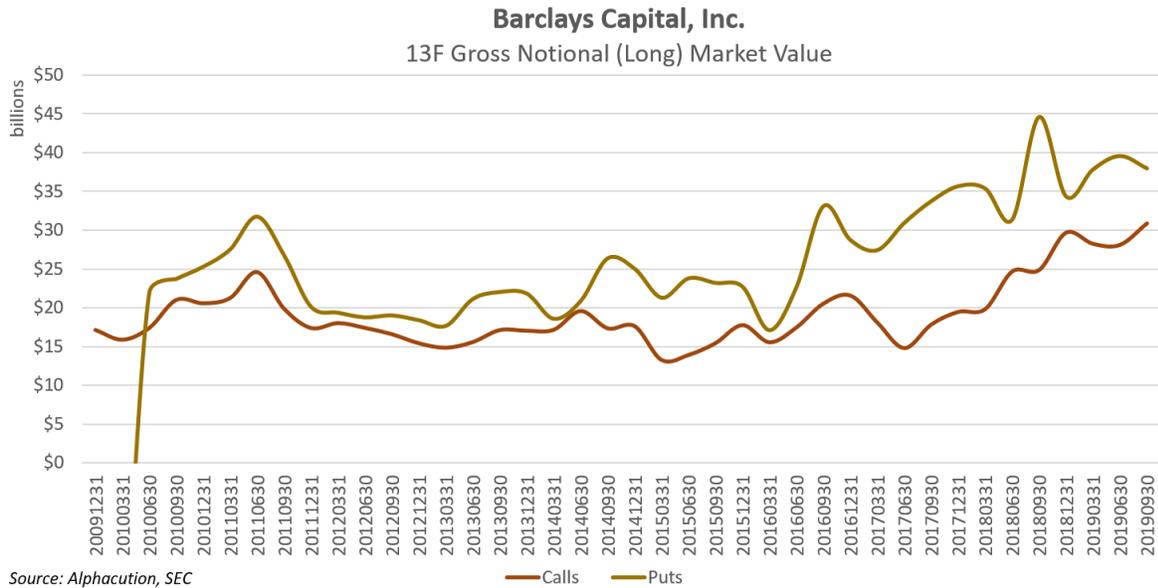
Meanwhile, as the big, bank-owned players fold, there are others – smaller, focused specialists – who are stepping up, where options represent a majority – sometimes, a vast majority – of their 13F holdings value.



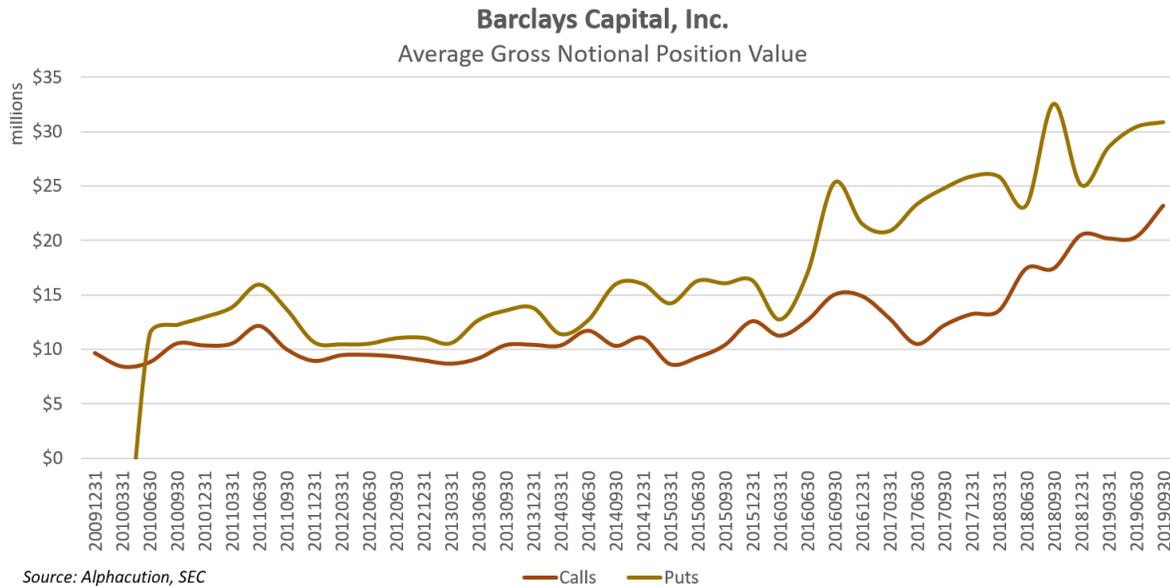
Now, as for Barclays Capital (BarCap), the picture is quite different: Over a similar range of time (40 quarters) beginning Q4 2009, BarCap option position counts fall from a peak of ~2,000 names (oddly enough, around a similar time as GSCO's options value peak – Q2 2011) to the most recent tally of ~1,250 – 1,300 names in Q3 2019. By the look of it – and unlike GSCO – BarCap's was an option business in decline for a long time...



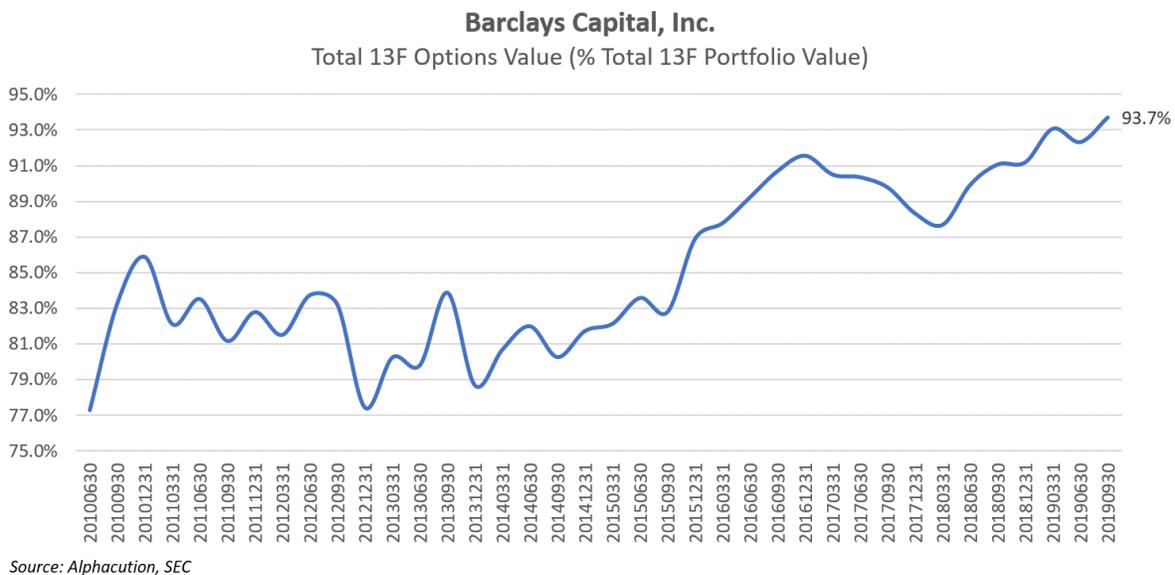
However, when we look at option values, we see that this is not a business in decline, but one undergoing consolidation. It appears that BarCap was attempting to trade more in fewer (expectedly, more liquid) names, as is demonstrated by increasing 13F option portfolio values...



and, corresponding increases in average (gross notional) option position values.



In short, these periodic, position-oriented perspectives don't yet signal the decision that was ultimately made in December. However, when we look at one more picture – the one that shows total option values dominating a bank-owned options book – perhaps that is the signal (separate from detailed knowledge of profitability) that we could have been looking for to predict such a decision...



Now, as for what happens to this business in the hands of GTS (www.gtsx.com), that will be something fascinating to watch. Yes – an option book seems better placed in the hands of smaller, more focused players these days. And yet, most of the best option businesses in history have been built organically, from scratch. It remains to be seen whether one can be successfully bolted together. We are monitoring Two Sigma Securities (the former Timber Hill) – and now, GTS – to see if it can be done.

Until next time...

By [Paul Rowady](#) | February 5th, 2020 | [Alphacution Feed](#)

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