



**Pragma Research Concludes “Hopping the Queue” on Exchange Orders
Delivers Improved Execution Quality**
Electronic Trading Leader Introduces New Routing Methodology

NEW YORK– March 28, 2012 – Pragma Securities, an independent electronic trading boutique, today announced a new routing methodology designed to significantly improve execution quality. The methodology is based on recent research demonstrating that the conventional cost-sensitive method of exchange order routing delivers inferior all-in performance results as calculated by the sum of implicit shortfall costs and explicit fees and rebates.

As a result of this research, Pragma has developed a quantitative model and supporting smart-routing system for passive limit orders that significantly improves all-in performance. The research note is available on Pragma’s website, www.pragmatrading.com.

David Mechner, CEO of Pragma, notes that Pragma’s innovative and patent-pending smart-routing methodology benefits clients through improved execution quality, Pragma’s core value proposition. “Pragma continues to shine light on issues involving routing and internalization, where the interests of brokers and clients are potentially at odds, and where full transparency and disclosure are therefore critically important,” commented Mechner.

In traditional exchange pricing models, exchanges compete for order flow in part on the basis of providing high rebates to liquidity providers. Pragma’s research shows that truly cost conscious traders do better by sometimes posting passive orders on “inverted” exchanges. Doing so allows these orders to “hop the queue,” passing over other passive orders posted on traditional exchanges, resulting in better execution quality, despite foregoing the explicit rebate paid by exchanges with the traditional pricing model. This results in better all-in performance.

“This study result is the direct outcome of Pragma’s ongoing research program into applied market microstructure, and clearly demonstrates the potential hidden costs of trading without full transparency,” said Eran Fishler, Director of Research and Algorithmic Trading at Pragma.

Pragma’s research raises several important points. First, the potential for principal-agent conflict between brokers and clients, where larger rebates can be generated for the broker at the expense of degraded execution quality for clients. Second, because of the potential for such conflicts, transparency around routing practices is essential. Lastly, for the investment manager with a focus on all-in performance, Pragma’s research and new routing methodology provides a significant improvement in execution quality beyond that allowed by traditional order routing rules.

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About Pragma Securities

Founded in 2003, Pragma is one of the largest independent electronic trading boutiques in the US. Pragma provides sophisticated analytic services and algorithmic trading tools to a wide range of market participants. Pragma's specialization in market microstructure saves clients money and preserves alpha. For more information, please visit www.pragmatrading.com

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