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Goldman Had 600 Cash Equity Traders In 2000; It Now Has 2

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For the dramatic impact of technology, and specifically trade automation from algo, quant and robotic trading on today's capital markets, look no further than Goldman's cash equities trading floor at the firm's headquarters which, according to the MIT Tech Review [4], employed 600 traders its height back in 2000, buying and selling stocks for Goldman's institutional client clients. Today there are just two equity traders left.

Complex trading algorithms, some with machine-learning capabilities, first replaced trades where the price of what's being sold was easy to determine on the market, including the stocks traded by Goldman's old 600.

Call it the rise of the machines which we warned about over 8 years ago back in 2009, just after the peak of the financial crisis, which have led to the extinction of the cash equity trader job.

"Automated trading programs have taken over the rest of the work, supported by 200 computer engineers. Marty Chavez, the company's deputy chief financial officer and former chief information officer, explained all this to attendees at a symposium on computing's impact on economic activity held by Harvard's Institute for Applied Computational Science last month."

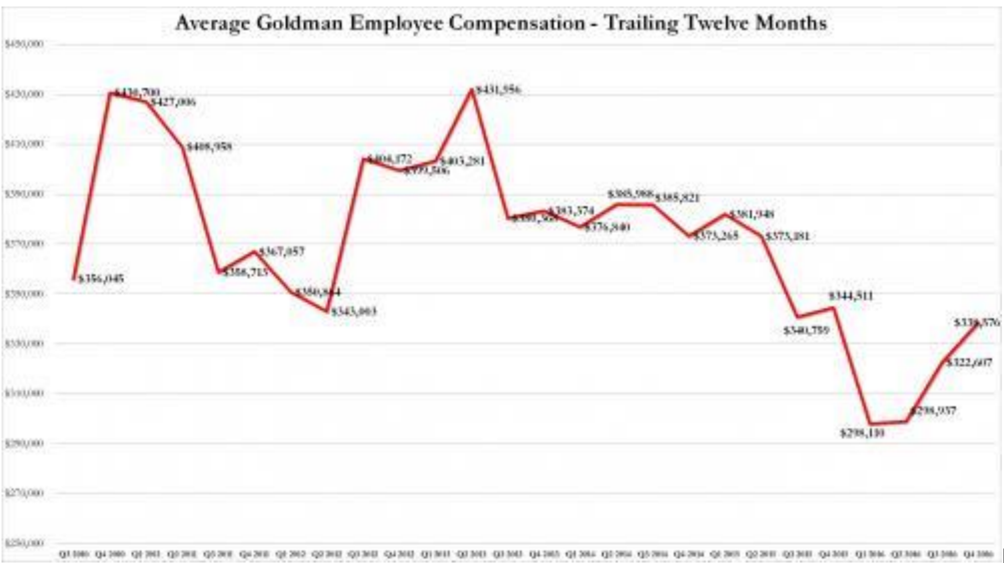
It's not just cash trading: according to Goldman's next CFO, Marty Chavez, areas of trading like currencies and even parts of business lines like investment banking are moving in the same automated direction that equities have already traveled. As Tech Review adds, today, nearly 45 percent of trading is done electronically, according to

Coalition, a U.K. firm that tracks the industry. In addition to back-office clerical workers, on Wall Street machines are replacing a lot of highly paid people, too.

Ironically, the age of trading automation, means that the big banks, like the rest of the economy, are increasingly seeing the same income spreads that mirror the broader economy.

Average compensation for staff in sales, trading, and research at the 12 largest global investment banks, of which Goldman is one, is $500,000 in salary and bonus, according to Coalition. Seventy-five percent of Wall Street compensation goes to these highly paid “front end” employees, says Amrit Shahani, head of research at Coalition.

According to Goldman's most recent quarterly report, after sliding for the past few years, average banker comp rebounded to the highest in one year, [reaching $338,576] [5], still well below the levels attained in recent years.



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As the MIT publication adds, for the highly paid who remain, there is a growing income spread that mirrors the broader economy, says Babson College professor Tom Davenport. “The pay of the average managing director at Goldman will probably get even bigger, as there are fewer lower-level people to share the profits with,” he says.

With time, even more highly paid jobs will be lost to automation:

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Now areas of trading like currencies and futures, which are not traded on a stock exchange like the New York Stock Exchange but rather have prices that fluctuate, are coming in for more automation as well. To execute these trades, algorithms are being designed to emulate as closely as possible what a human trader would do, explains Coalition's Shahani.

After equities, the next distressed group appear to be FX traders, which is hardly surprising after the recent scandals rocking the cash and spot trading FX community, resulting in billions of settlements payments over rigged fixes and markets. Here, Goldman has already begun to automate currency trading, and has found consistently that **four traders can be replaced by one computer engineer**, Chavez said at the Harvard conference.

Stunningly, some 9,000 people, about one-third of Goldman's staff, are computer engineers, Chavez said at the symposium.

And, after equity and FX traders, it will be the backbone of Wall Street: investment bankers themselves: "**Next, Chavez said, will be the automation of investment banking tasks, work that traditionally has been focused on human skills like salesmanship and building relationships**. Though those "rainmakers" won't be replaced entirely, Goldman has already mapped 146 distinct steps taken in any initial public offering of stock, and many are "begging to be automated," he said."

Needless to say, this is great news for Goldman, which says that reducing the number of investment bankers would be a great cost savings for the firm. Investment bankers working on corporate mergers and acquisitions at large banks like Goldman make on average $700,000 a year, according to Coalition, with most MDs and partners earning orders of magnitude more.

Chavez himself is an example of the rising role of technology at Goldman Sachs. It's his expertise in risk that makes him suited to the task of CFO, a role more typically held by accountants, Chavez told analysts on a recent Goldman Sachs earnings call. "Everything we do is underpinned by math and a lot of software," he told the Harvard audience in January.

Finally, for the most glaring example of how technology impact new Goldman product lines, consider that Goldman's new consumer lending platform, Marcus, aimed at consolidation of credit card balances, is entirely run by software, with no human intervention, according to the CFO. It was nurtured like a small startup within the firm and launched in just 12 months, he said. It's a model Goldman is continuing, housing groups in "bubbles," some on the now-empty trading spaces in Goldman's New York headquarters:

"Those 600 traders, there is a lot of space where they used to sit," he said.

Of course, [regular readers are well aware](#)[7]of the extinction of the carbon-based trader, seen nowhere better than on the trading floor of the legendary UBS trading floor, once upon a time the world's biggest.

Before:

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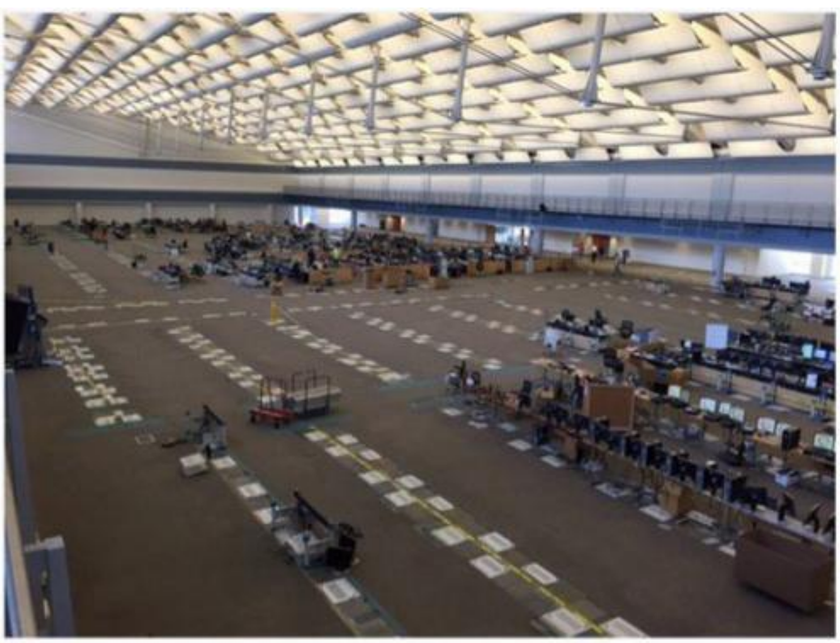
And 8 year after, when all that's left of the UBS trading floor, and the legacy of that version of Wall Street, is this.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