



# Asset International

## Post-crash world tests program players

The post-crash paralysis that drastically curtailed international program trading in the last quarter of 1987 seems to have loosened its grip somewhat, *writes our New York correspondent*. Officials at the three firms that dominate the international program business - Goldman Sachs, Morgan Stanley and James Capel - all say that they have started to see an escalating level of non-US program business.

Much of this business originates from the US, where the big passive international managers - totally inert in the wake of October 19 - were actively doing large programs in Tokyo and London in the first two weeks of January, sources say.

Nonetheless, the crash and the subsequent retrenchment has clearly weakened the resolve of some of the less committed sell-side players. Drexel Burnham Lambert, for instance, has now shelved its fledgling efforts to trade Japanese programs. First Boston, where officials had expressed an intent to break in on more programs, is also reviewing the scale of that commitment [see *First Boston* p3]. "The business is concentrating," says **Geoffrey Heal**, president of FITEL, the UK-based telecommunications company which markets a back-office system specifically designed for program traders. "Firms that were in the international program business in a small way seem to want to get out."

The non-US program business - which is overwhelmingly made up of the buying and selling of large packages of stocks, rather than the index arbitrage type of trading that is now such a whipping boy in the US - grew exponentially in the period up to October, and by some counts was at that stage a \$1 billion-a-month business. However, the post-October 19 markets made taking on principal positions an abnormally risky game, and transformed so-called "blind bid" programs - where brokers bid on large blocks of international stocks sight unseen - from the merely alarming to heart-stoppingly hazardous. As a result, during November and December, particularly in London, programs slowed to a

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trickle, and such programs that were done tended to be agency programs. Now, however, blind bids are being tendered again.

Despite skepticism that principal program trading would be able to re-establish itself while spreads are still so wide, it is clear that a number of UK brokers - including BZW and SG Warburg - have done large British programs. Capel too is known to have successfully implemented a substantial UK program in particularly unpleasant market conditions.

On the buy-side, County NatWest Investment Management, the predominant UK player, seems more at ease today with market conditions - sources say County has held itself aloof from programs in recent months. Now, however, according to a senior County official, "the market is improving, and we've seen a number of international and domestic UK programs take place in recent weeks - clearly, spreads on blind bids are becoming more realistic."

**Salomon Brothers** is said to have won some international program business through indexers looking to replicate the Salomon-Russell indices. And there is every indication that more business will shortly be forthcoming from US public and endowment funds, who generally - at least initially - use passive managers to invest internationally. According to one source, the one-off restructurers, coupled with the passive managers who made the international program business such a growth area in the first three quarters of 1987, will be in evidence as long as there are brokers willing to bid competitively on such programs. And while some of the more marginal players are clearly rethinking their strategies, there is no indication that Goldman, Morgan or Capel have any doubts about the scale of their commitment.