



NORTH-WEST UNIVERSITY
YUNIBESITI YA BOKONE-BOPHIRIMA
NOORDWES-UNIVERSITEIT

TRADING PERFORMANCE EVALUATION

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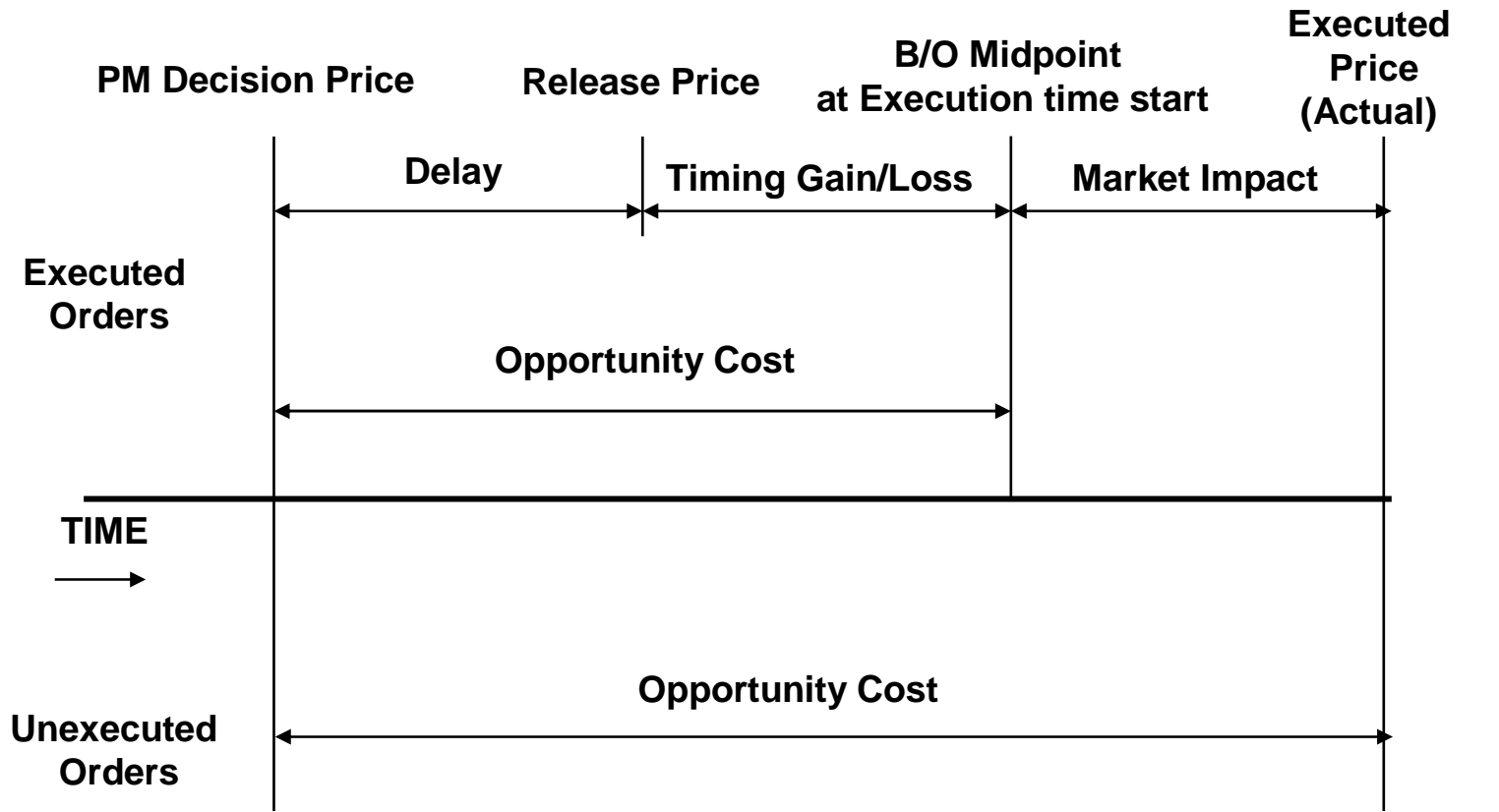
Trading Costs

- What are the different components of trading costs?
How are they measured?
- Explicit components are transparent, easily measurable
 - Commissions are fees paid to brokers to execute trades
 - Transfer fees paid by investor to transfer ownership of stock
- What about implicit costs?

Execution Costs

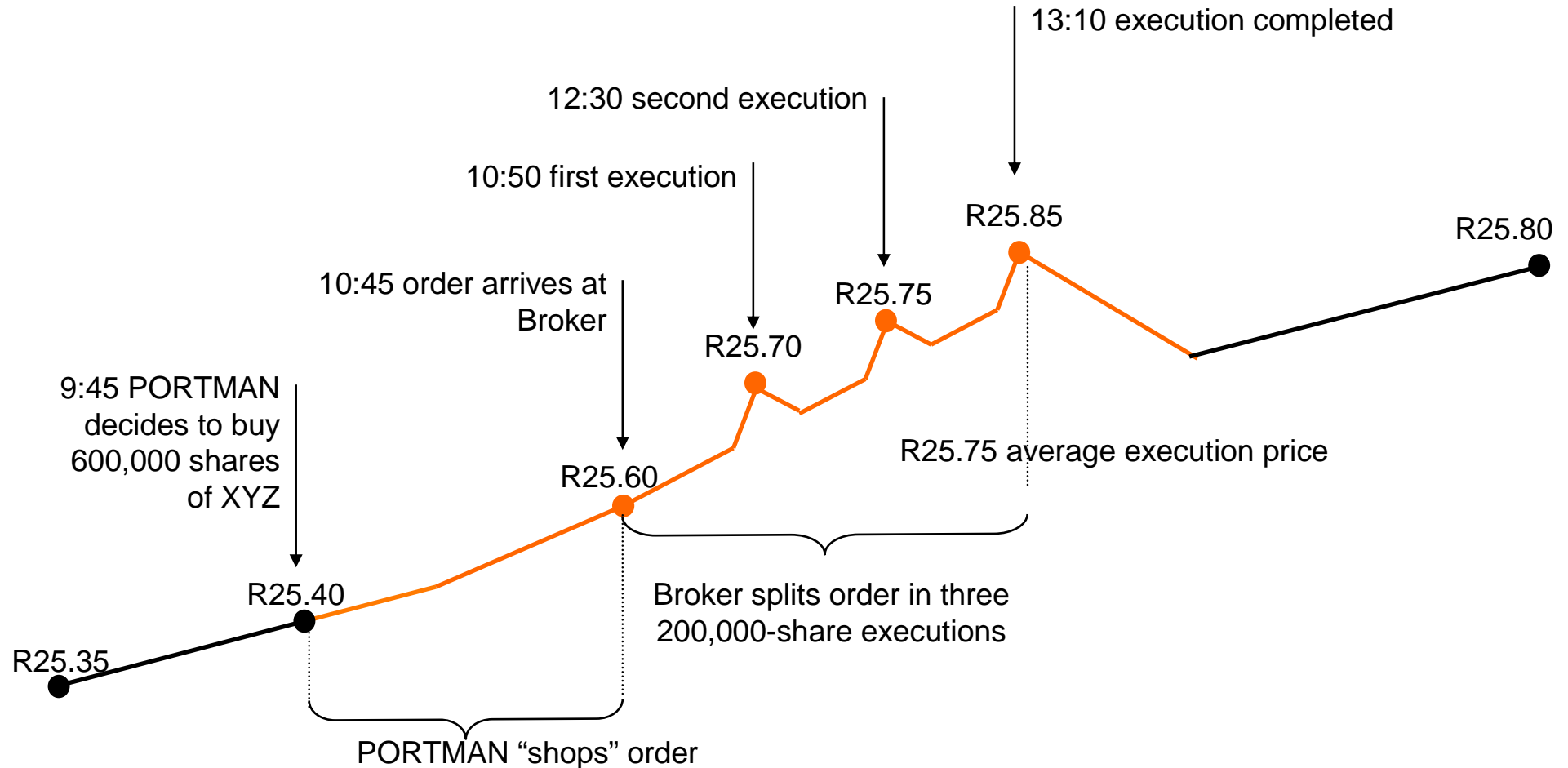
- The most important type of implicit cost is execution cost
- Two components of execution costs:
 - Market impact costs – dealer's bid-ask spread and price concession due to size of trade
 - Market timing costs – price volatility of stock during time of the transaction

Types of Costs



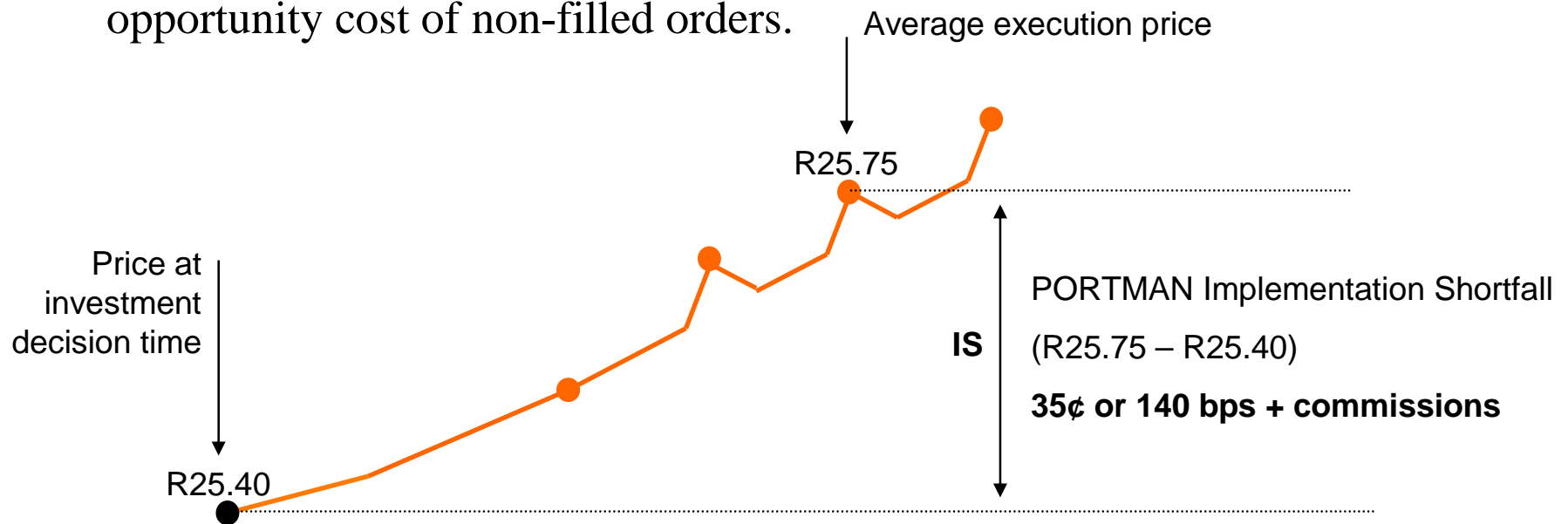
Executed Price (Assumed)

Profile of PORTMAN large buy order execution



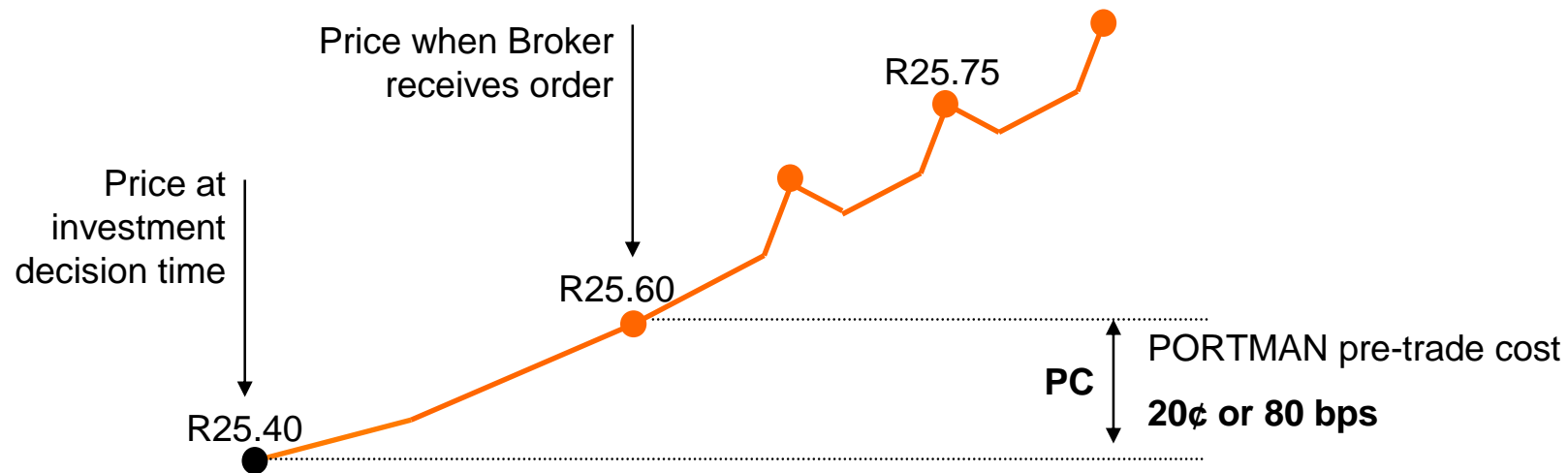
Implementation shortfall

- Definition of Implementation Shortfall (IS)
 - Buy orders: average execution price plus commissions minus price at investment-decision time
- “All-in” trading cost from point of view of investor
 - Includes commissions, cost of shopping order, execution shortfall and opportunity cost of non-filled orders.



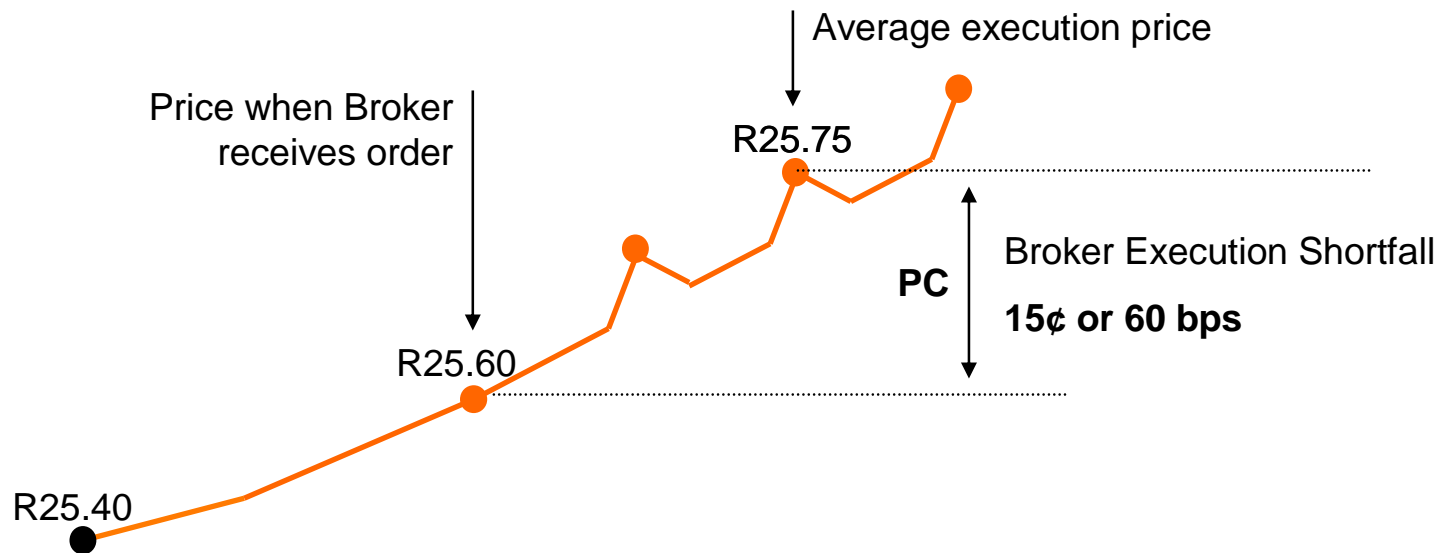
Pre-trade cost

- Definition of Pre-Trade Cost (PC)
 - Buy orders: price when final execution venue receives order minus price at investment-decision time
- Cost of shopping the order
 - Delayed execution
 - Information leakage

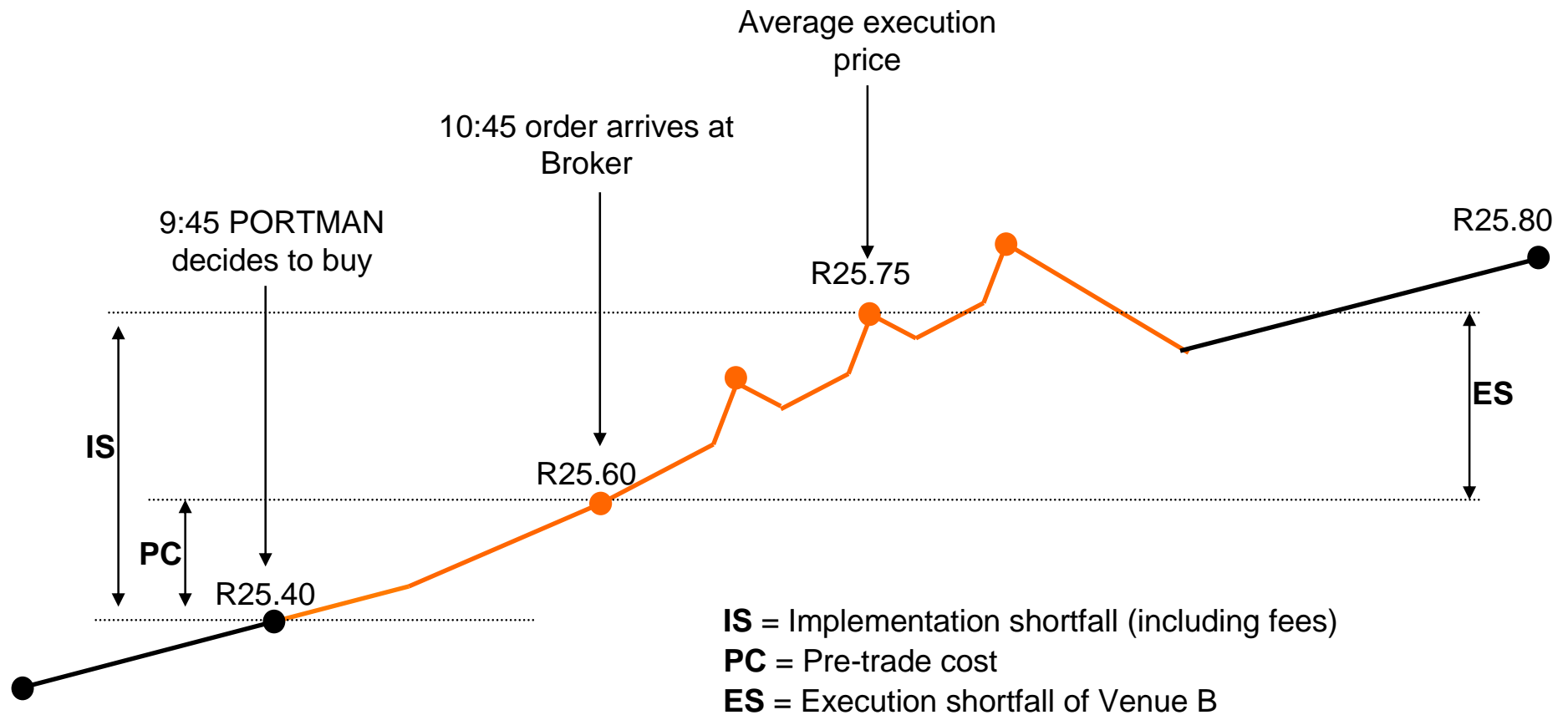


Execution shortfall

- Definition of Execution Shortfall (ES)
 - Buy orders: average execution price minus price when execution venue receives order
- Trading cost from point of view of executing venue
 - Executing venue is not responsible for pre-trade cost
 - Includes opportunity cost of slow execution



Putting it all together



$$IS = PC + ES + \text{commissions}$$

Broker Performance Evaluation

- **Relative Performance Measure** – performance metric that computes the quantity of total activity that transacted in the market at a price less favorable than your own average price
- **Calculation of RPM** – comparing the average execution price to all market activity over the trading period
- **RPM for buy orders** – the percentage of all activity that traded at a price higher than your execution price
- **RPM for sell orders** – the percentage of all activity that traded at a price lower than your execution price

Broker Performance Evaluation

- **RPM(trades)** – (number of trades at a price less favorable than your execution price / total number of trades)
- **RPM(volume)** – (total volume at a price less favorable than your execution price / total market volume)

BMI ULTIMATE ALPHA

- Measures client trading performance using the full set of JSE tick-by-tick transaction and quote data
- Web based delivery
- User can slice and dice data in a myriad of ways

BMI ULTIMATE ALPHA

- Users can effortlessly identify outlier transactions
- Can search for glaring trouble spots in the trading process
- Our scattergrams are analytical dashboards that tell the story of the clients' trading performance
- Clients can build a track record of trading performance for external compliance purposes

BMI ULTIMATE ALPHA

- Users can evaluate performance of a particular broker, trader or portfolio manager, of an operational group, or of the entire firm
- Users can select the performance benchmarks that best reflect their decision making style
- The system can be used to calculate the real cost of a transition

**THANK YOU FOR YOUR
ATTENTION**