



# How Can Buy-Side Institutions Relative Trading Performance?

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“Best execution” is a term that can have different meanings from your perspective. For example, sell-side participants have a different context of Regulation NMS’s Rule 611—the order execution process. As we noted in our September 2014 seminar at [International Trader Forum in Berlin](#), the U.K.’s FCA’s [“Thematic Review, Best Execution and Payment for Order Flow”](#) execution is broader than ‘best price’ and this is not the case in Europe and other jurisdictions such as the U.S.” This is closely aligned with Former SEC Associate Director [Gohlke’s definition](#) as placing trades to minimize execution costs. In this course, the question then is: What is one’s expectation of

Well, Syracuse University Professor Amber Anand has managed to have pulled off the improbable. [In a series of papers](#), she has come as close as one can to quantifying “best execution” and realized implicit trading costs for buy-side firms. Using large data, they find that the trading alpha between the top and bottom performing institutions by quintiles is 91 basis points. One of the interesting findings is that the costs are persistent—institu-

costs continue to have lower trading costs over time. The paper also shows that it is notoriously difficult to predict on an order-by-order basis. The authors demonstrate that, on the aggregate, there is a high correlation between institutional execution trading costs and related

	Quintile	Trading Alpha
Best	Q1	
	Q2	
	Q3	
	Q4	
Worst		

Table 1. Trading Alpha across quintiles for buy-side institutions

The Ancerno (Abel Noser) dataset spans 1999–2008 and includes data from more than 750 institutions and an average of \$2.4 billion in trading volume. The analysis computes cost of trading versus order execution. The following are descriptive statistics for the dataset prior to the

Table 1  
Descriptive statistics

	No. of Brokers	No. of Institutions	No. of Stocks	No. of tickets	Ticket Size	Ticket Size/Avg daily vol. (%)
Panel A. Full sample	1216	750	8,275	48,775,663	15,790	2.1
Panel B. By year						
1999	667	323	5,671	3,340,323	24,088	4.8
2000	651	321	5,442	4,449,647	23,290	3.6
2001	682	335	4,673	5,173,781	22,583	2.7
2002	708	358	4,365	5,725,588	15,901	2.1
2003	678	319	4,286	5,375,277	13,666	1.8
2004	620	307	4,358	5,548,414	12,889	1.6
2005	631	286	4,237	5,272,942	13,067	1.7
2006	597	284	4,195	4,950,685	12,139	1.4
2007	549	259	4,212	4,619,523	11,338	1.2
2008	474	223	3,919	4,319,483	12,001	1.0

Table 2. Descriptive statistics for the study

## Execution Performance Across Brokers and Institutions

Anand and his colleagues make several quantifications of the relative performance across brokers and institutions. They suggest that broker selection on part of

results. They also find that trading skill is positively correlated with the performance of an institution's traded portfolio. The authors' examination of broker influence on institutional trading costs is consistent with the findings of other studies.

institutional trading desks appear to add significant selection. The group goes on to demonstrate an institution's portfolio performances and the execution of an institutional trading desk. Based on the large spread of bottom-performing institutions, they conclude that a fund is more likely to outperform if the portfolio manager is not using an institutional trading desk.

### Execution Performance Over Time

Execution shortfall across institutions decreased from April 2001 and increased after 2007, i.e., the creation of those costs can be seen in Figure 1, as the "Institutional" line rises around 2010 and then drops again. An interesting observation is that during the financial crisis, costs have not dropped back to pre-crisis levels but stayed relatively elevated post-crisis. We believe this is worth examining more closely. We have two thoughts: first, are these costs "volatility-adjusted." Costs will rise due to volatility if you are experiencing random volatility shocks because costs are volatility-adjusted. Our second thought is—Are costs staying at elevated levels because of

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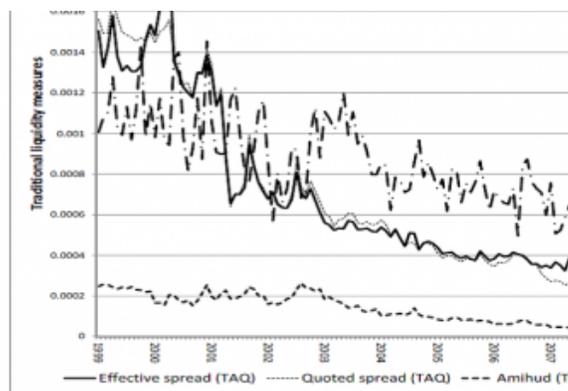


Figure 1. Institutional trading costs over time

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