Building A Better Benchmark?

Incorporating trade-cost analysis into trader compensation can be a controversial discussion. According to a recent Greenwich Associates report, 30 percent of money managers surveyed include it as part of compensation. But many feel that they are being evaluated against benchmarks that don't address their real challenge.

Henry Yegerman

"The real point about transaction-cost analysis isn't 'How much did this trade cost me?'" said Henry Yegerman, managing director and global head of product management at UNX. "The real question is, 'Have I hit the optimal point between lowering my trading costs and increasing my fill rates?' This is what traders do for a living."

To calculate truly meaningful benchmarks for trader compensation, an implementation shortfall benchmark would use order book data and take into account available liquidity, said Yegerman, who spent 12 years at ITG and launched its original TCA product.

"Traders say that it is not fair to have their performance measured against a Last Tick benchmark price representing a trade of perhaps no more than 100 shares. This fails to take into consideration the available liquidity behind it. The benchmark should be adjusted in accordance with whether there is sufficient liquidity available to effectively execute planned trades."