



FOR IMMEDIATE RELEASE

## QSG® STUDY PROVES HIGHER TRADING COSTS INCURRED FOR VWAP ALGORITHMS VS ARRIVAL PRICE ALGORITHMS, HIGH FREQUENCY TRADING CONTRIBUTING FACTOR

Naperville, IL – November 24, 2009 — Quantitative Services Group LLC (QSG®), a leading provider of equity research, multi-factor models and trading analytics to institutional investors, today announced that it has completed a study revealing that significantly higher impact costs and trading velocity are incurred for VWAP algorithms when compared to Arrival Price algorithms, especially when applied to liquid, low price stocks. This is contrary to the popular perception that VWAP strategies reduce trading costs through passive, less detectible, order placement strategies. The results suggest that High Frequency Trading (HFT) strategies are materially contributing to these increased costs.

QSG employed its T-Cost Pro® tick-based transaction cost attribution platform to conduct the study. This innovative technology allows QSG to isolate the price impact caused by the individual trades that make up an institutional size order, a key element in accurately evaluating sophisticated trading algorithms. The dramatic increase in the number of trading venues and the velocity of equity trading has made many standard trading analysis measures obsolete. In response, QSG has developed an integrated set of tools that allows the trader the ability to capture actionable decision making information by segregating their impact from those of their competition.

“This research indicates that today’s trading environment has changed in important ways. The sophisticated ways in which HFT strategies are ‘reading’ the tape suggests that passive order techniques are being increasingly gamed,” said Tim Sargent, QSG President and Chief Executive Officer. “If the ‘set it and forget it’ techniques offered by the first generation of algorithms are no longer effective because the competition is employing increasingly sophisticated solutions, today’s traders need better tools to find the techniques that will succeed. It is our goal to help them devise an appropriate response.”

The details of the study suggest that HFT strategies anticipate participation style orderflow. This leads to erosion of natural liquidity and can initiate a costly feedback loop as an algorithm responds to unanticipated increases in interval volume. VWAP algorithms are particularly vulnerable to this activity given the assumptions that drive their order distribution decisions. The report’s insights are especially relevant given the lack of empirical evidence isolating the impact of HFT strategies on institutions employing non-HFT strategies.



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### About Quantitative Services Group LLC

Quantitative Services Group LLC is a leading provider of independent global equity research, advanced trading cost analytics, and investment consulting services to institutional investors. QSG does not manage assets or offer execution services, allowing the firm to provide clients with unbiased, impartial research. They reserve the right to limit distribution of its products. QSG's products include QSG Edge™, Pre-Trade Analyst®, T-cost Pro®, Factor Analyst®, and Virtual Research Analyst®. The details of QSG's client relationships are kept strictly confidential. ([www.qsg.com](http://www.qsg.com))

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