Portfolio Construction

Transactions Costs: Practical Application

September 17, 2018

Transactions costs are a necessary aspect of implementing any investment strategy, whether active or passive. When evaluating investment strategies, the analysis of transactions costs is at risk of being overly simplified, leading to potentially erroneous conclusions about a manager's trading acumen and ultimately suboptimal investment allocation decisions. The goal of this paper is to uncover the many nuances underlying transactions costs analysis and the implications of them when comparing costs across managers. It also presents a practical guide for due diligence pertaining to transactions costs that is meant to make the analysis more substantive.

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