JOURNAL OF TRADING

A central feature of both academic and practitioner finance is the trade-off between risk and return. Although much attention has been paid to the cost of trading, little has been devoted to the risks of trading. Engle and Ferstenberg address both the risk-return trade off for investment as well as that for execution. They conclude that execution risk and investment risk are the same thing and can be traded off against one another. They also suggest that the same risk tolerance should be used to evaluate trading strategies and investment strategies.

Hill explores some trends and issues in cross-product equity market capacity. This is followed by Gleason, Lee and Madura who use a sample of intraday extreme stock price movements and assess the noise trading component of those movements. They find that the first and last periods of the day are when large stock price movements are triggered without public information. Kissell introduces alternative techniques to compare algorithmic performance that will assist in determining differences across algorithmic performance. Miller and Pagano identify some of the best and worst exchange merger pairs based on risk-return and correlation patterns.

Next, Kumar and Kumar discuss trading volatility as an asset class focusing on the Asian exchanges where there are no volatility indices offered on local markets. Anoli and Petrella use order flow and limit order book data in order to estimate the internalization rate, to estimate the internalization expected revenues, and to investigate the main factors affecting both the internalization rate and the magnitude of internalization revenues. This is followed by Hobson who discusses the recent effects of regulations and technology on company and stock behavior. Boni and Rosen discuss the post-hybrid NYSE and conclude that smart order routing tools that allow traders to search for best execution will take on increased importance in the post-Reg NMS world. Gawronski takes the Boni and Rosen discussion further concluding that price improvement is rapidly declining at the NYSE as the Hybrid is rolled out, making the NYSE more akin to ECNs on that score and inferior to electronic market making destinations that do show frequent price improvement.

We conclude this issue with Butler's discussion of Alternative Trading Systems and his conclusion that the marketplace is overgrown with ATS which is not only creating inconvenience for the buyside trader, but a challenging environment characterized by excessive search costs, risk incurred while searching for liquidity and unnecessary ticket charges.

As always, we welcome your submissions. Please encourage those you know who have good papers or have made good presentations on trading related subjects to submit them to us. Submission guidelines are included in this issue. As always, we value your comments and suggestions so please email us at journals@investmentresearch.org.

Brian Bruce
Editor-in-Chief

Publisher's Note:

Institutional Investor, the Publisher of The Journal of Trading *wants to extend a special thanks to Goldman Sachs for its continued support of* The Journal of Trading. *Please note that Goldman Sachs does not have influence on the editorial content found in* The Journal of Trading. *Representatives from any firm are encouraged to submit an article to our independent Editor, Brian R. Bruce for review and prospective acceptance into the publication. All editorial submissions, acceptance and revisions are the sole decision of Mr. Bruce. The editorial submission guidelines are found on the last page of the publication. Thank you and I hope that you enjoy this and future issues of* The Journal of Trading.

Allison Adams
Publisher, Institutional Investor Journals, aadams@iijournals.com