JOURNAL OF TRADING

"Shortfall surprises" are the difference between actual and expected trading costs. We open our issue with Abrokwah and Sofiano's investigation of five possible reasons for the shortfall surprise. They conclude that by far the most important factor is the expected underlying price move. We follow this with Wagner and Edward's discussion of best execution as a process using the disciplines of Peter Drucker. Tokic discusses the speculation and positive feedback trading of "passive investors" and argues that this behavior is the major reason why markets might not be efficient. Blank discusses implied trading in energy futures and concludes that implied quotes are critical to building volume in new electronic markets, implied functionality provides a great deal of liquidity and depth to mature markets and implied IN and OUT orders can tighten up any market, by eliminating the "holes" in the pricing and maturity structure. Krande proposes a model to benchmark best execution quality; based upon parameters suggested by the EC.

Lajbcygier and Lim overlay two money management techniques on a popular profitable trading rule compare them with naïve money management. They find that money management is crucial in enhancing trading system performance. Lyden looks at market impact varies over the trading day. He found that trading in the early minutes of the day results in incrementally worse executions. With best execution and transaction getting so much attention currently, many asset managers are examining the post settlement in order to control costs. Kurland presents a few of the methods being used or explored by asset managers, and some of the challenges posed by each. An algorithm for short-term technical trading is presented by Creamer and Freund. We conclude this issue with Moran and Dash who explore the use of VIX as a portfolio hedge and discuss the pricing of VIX contracts.

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. We value your comments and suggestions so please email us at journals@investmentresearch.org.

Brian Bruce
Editor-in-Chief

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