

PERSPECTIVES

The Numbers Are In: Flexible Trading Helps Across Markets

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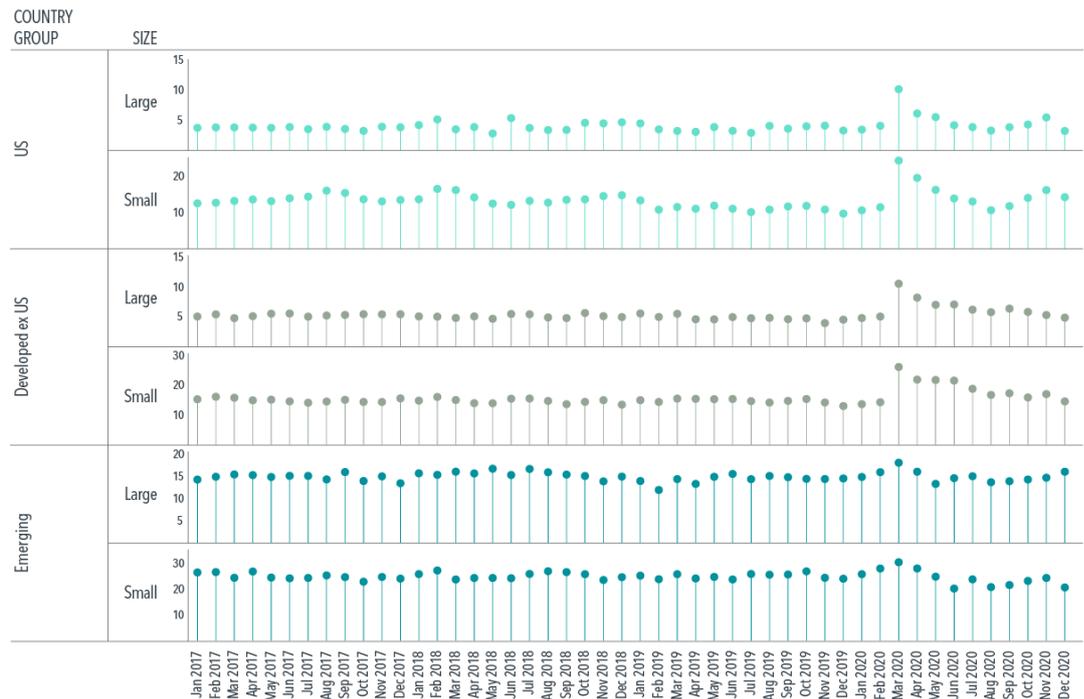
Jul 01, 2021

Investing in the real world incurs costs, and costs matter for the returns investors get.

Dimensional uses a flexible trading approach that seeks to reduce costs. This flexibility starts with our investment philosophy. We seek to add value by systematically emphasizing groups of stocks with higher expected returns rather than by identifying mispriced securities. As a result, we can consider many securities with similar characteristics as close substitutes for one another. Our flexible trading approach is also empowered by our thoughtful portfolio implementation. We structure our portfolios to focus on long-term drivers of returns—such as company size, relative price, and profitability—which do not require high turnover. We incorporate information from shorter-term drivers of returns, such as momentum and securities lending fees, by delaying buys and/or sells of securities rather than by chasing fast-dissipating signals. And we seek to rebalance our portfolios incrementally each day using up-to-date information. All of this enables us to participate daily in the available market liquidity and avoid demanding immediacy.

In a [new study](#), we examine the trading price advantages of our flexible approach after tracking trade data over the 2017–2020 period across 46 stock markets. As shown in **Exhibit 1**, Dimensional's average price advantages—measured by our trading prices relative to those obtained by market participants who demand immediacy—were pervasive across markets and persistent over time. Our price advantage was 10.5 basis points (bps)¹ on average over the period, ranging from 4.3 bps for US large cap stocks to 24.8 bps for emerging markets small cap stocks. Furthermore, our longstanding flexibility can be more valuable when volatility is high. Indeed, we see that the price advantages increased as much as 100% in times of extreme return volatility, like March 2020.

Exhibit 1
Dimensional's Price Advantage Over SBBO2 (bps)
 2017–2020



Monthly average price advantages over SBBO in basis points (bps). Source: Dimensional Fund Advisors. Small cap is defined as approximately the bottom 8% of market cap within the US, bottom 12.5% of market cap within each non-US developed market country, and bottom 15% of market cap within each emerging market country. Small cap stocks with the lowest profitability and lowest book-to-market ratios are excluded.

These results are just one of the many positive outcomes from our robust investment process, built on decades of implementation expertise. For over 40 years, Dimensional has employed a systematic and cost-effective approach to capture every bit of return we can for our clients, in the real world.

DEFINITIONS

¹ **Basis Point:** One basis point (bps) equals one-hundredth of a percentage point (0.01%).

² **SBBO:** To measure the price advantage of our flexible trading over demanding immediacy, we conduct trading cost analysis by benchmarking our trade price to the immediately executable price, which is the prevailing bid price for a sell and offer price for a buy. This benchmark is called SBBO (sell at the bid and buy at the offer).

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