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| Course Name | Securities Trading |
| Instructor | Giovanni Petrella |
| Credits | 2 credits – Module 4 |

Learning Goals

To develop a fundamental knowledge of how securities trading are conducted, how security traders can measure and minimize their trading costs, and how market makers can optimally set their bid and ask quotes.

At the end of this course, students will be able to solve trading and order placement problems, to assess the quality of trade execution and to evaluate broker performance, to identify the advantages of alternative trading mechanisms.

Course Description

Trade execution is often an overlooked problem. In many courses it is assumed that securities can be bought or sold without any cost. By contrast, real investors are increasingly concerned with controlling transaction costs. This course focuses on the operations of securities markets and broker/dealer intermediaries. Students will evaluate a spectrum of issues regarding the formulation of trading decisions, market structure design, and regulation of securities trading.

This course will be valuable to students planning to work in the securities industry (sales and trading), the asset management industry (investment implementation and performance measurement) or financial institutions (proprietary trading).

Course Outline

1. Introduction to securities trading
 - Why do people trade
 - Category of traders
 - Indicators of good secondary markets
2. Liquidity formation
 - Origins of liquidity: suppliers and demanders of liquidity
 - How to use limit and market orders
 - Block trading
3. Market structure
 - Brokers vs. dealers, market makers, specialists
 - Order driven vs. quote driven markets
 - Choosing between call and continuous trading
4. Market making and the bid-ask spread
 - How market makers set bid and ask quotes
 - Inventory management
 - Adverse selection component of the spread

5. Trading performance measurement
 - Best execution and transaction cost analysis (TCA)
 - Explicit vs. implicit transaction costs
 - Execution benchmarks: pre-trade (implementation shortfall), post-trade (realized spread), daily prices (VWAP, LHOC).
 - Execution strategies
6. Recent developments in securities trading
 - Recent regulatory changes: Reg NMS and MiFID
 - Competition among market centers (exchanges vs. ECNs; floor markets vs. electronic markets)
 - New ways to trade (blind auction, dark pools, algorithmic trading)

Readings

The textbook for this course is Harris, Lawrence E., 2003. *Trading & Exchanges: Market Microstructure for Practitioners*, Oxford University Press.

Supplementary material will be posted on the class website.

Teaching Method

The course will consist of lectures (80%) and tutorials (20%).

Assessment Method

Written exam.