

Actionable Ideas for the Power to Trade Smarter

How Can Algo Wheels Help Create Better Outcomes?

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Mr. Wardle: Traders face increasing pressure to achieve and evidence best execution. At the same time, firms are keen to improve the automation and efficiency of trading desks so they can focus expertise on more complex orders. To support these efforts, traders are increasingly looking towards an algo wheel to help answer the question, “what’s the best algo for my trade?”

Once a trader has established an objective or trading style, an algo wheel provides an unbiased broker routing allocation. The broker then selects the most appropriate algo and executes the trade. It’s a systematic, performance-weighted method of broker routing that targets optimal execution outcomes, based upon quantitative data such as transaction cost analysis, and relevant real-time factors.

Algo wheels enable best practice experimentation and make it easier to compare the same execution objectives across different brokers, determining which is best for any given situation with statistical significance. This provides a structured best execution audit trail and reinforces a positive broker-trader feedback loop, helping reduce implementation shortfall costs by making use of the best available options.

If you’re thinking of setting up an algo wheel, there are a few important considerations to evaluate, including appropriate selection of benchmarks, routing objectives and statistical interpretation of results.

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