



## **Outsourced Trading & COVID-19**

COVID-19 has fundamentally altered the way buy-side firms view outsourced trading. What was once perceived as an option to cut costs amid margin compression and increased regulation, now has firms recognizing the numerous other benefits they receive when making the decision to outsource some, or all, of their trading.

### **Managers Controlling Costs**

The investment management industry has been dealing with enormous transformation over the last few years. Even prior to this pandemic, hedge funds and investment managers were expending tremendous effort to control costs. The related impact of COVID-19 may be to shorten the timeline for controlling costs and to refocus firms on their core functions. In recent years, firms have been able to delay these determinations as the positive performance of global markets has resulted in increased assets under management (AUM). With increased AUM came increased fees; thus, it may not have been on all managers' radar to cut costs. That is not true any longer.

### **Managers can Upgrade Trading while Retaining Control**

PMs have become more comfortable communicating with traders remotely while retaining control of the trading process and the value-add services received from their traders. Managers who previously thought they needed an in-house trader or trading desk are realizing that the physical location of the trader is not the most important aspect of trading. With outsourced trading well beyond the proof of concept phase, managers can now see evidence of other hedge funds and investment managers successfully upgrading their trading at no fixed cost to the manager.

The idea of upgrading to a team of experienced traders at no cost to your firm is a value proposition that money managers are increasingly starting to adopt. The cost savings are a big factor in choosing to outsource, although the right outsourced trading firm provides many other upgrades and benefits. Our experience running some of the largest buy-side and sell-side trading desks in the world has given Dalzell Trading the knowledge necessary to deliver the trading upgrades and benefits that our clients need:

- We have a buy-side orientation where the client and best execution always come first.

- Our clients benefit from our focus being on best execution--we execute each trade where we believe we will receive the best price, taking into account all circumstances. Not all outsourced trading firms can make this statement due to their conflicts of interest.
- We are an independent firm, and we have zero conflicts of interest. We don't staff a sell-side trading desk that shops your order flow to other firms. We don't have position traders looking to commit capital or prop trade against your order. We don't have sponsored dark pools looking to internalize order flow.
- Our sole focus is trading for our clients. This truly aligns the interests of Dalzell Trading with our clients' interests.
- We provide Trade Cost Analysis at no cost to your firm (our 2019 TCA shows that we outperformed 85% of our peer group of 1,000 brokers and investment managers).
- Access to CSA platforms for managers to pay their research obligations.
- Greater access to broker networks, trading venues, liquidity, and the latest trading technology; all without the buy-side firm having to make these investments. Managers can continue using their current OMS.

### **Full Outsourced Trading or an Extension of Your Existing Desk**

Some buy-side firms are actively looking to outsource only a portion of their trading. International firms are pulling back from staffing a dedicated US desk, using an outsourced trading firm to execute in a specific market or time zone. Other firms are supplementing their existing desk and utilizing an outsourced desk as trading volume dictates. Huge volume spikes in March and April left some desks understaffed for order flow that was being executed. Market structure, trading strategies, and trading venue selection has only become more complex in recent years. Add volatile market conditions to the mix and having experienced execution specialists, such as the team at Dalzell Trading, has never been more important.

A relationship with Dalzell Trading allows firms to take advantage of having experienced traders on hand who already have an in-depth relationship with the manager – we invest the time to know each manager's strategy, style, and needs, whether they need us full time or to supplement their current traders.

### **We are Here to Help**

Outsourced trading's popularity has been growing in recent years, yet the global pandemic and associated operational inefficiencies for many managers has highlighted the need and viability of this trading option. This is driving managers to learn more about how outsourcing may upgrade their trading while eliminating costs. We would love to speak with any and all managers to discuss the upgrades and benefits of outsourced trading, and to address any concerns you may have about outsourced trading.