



Testimony Concerning "Mutual Fund Industry Practices  
and their Effect on Individual Investors"

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and Government Sponsored Enterprises

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## **Introduction**

Chairman Baker, Ranking Member Kanjorski, and Members of the Subcommittee,

After three years of negative returns, quotes like the following reflect the backlash by shareholders, the media, and regulators:

"Mutual funds exist in a culture that thrives on hype and withholds important information in a cutthroat business that regularly misleads investors."<sup>1</sup>

While I hardly think it reflects the environment at Bridgeway Funds and while I believe the mutual fund industry in aggregate is definitely on the "cleaner end of the spectrum" within the investment community, major criticism *is* well deserved. As an industry we can do better; indeed, we *must* do better if we are to serve the long-term needs of our country's smaller investors. When the stock market was rising 10 to 30% per year in the 90's, no one looked "under the hood" of their mutual funds. Now that many people have experienced doubled digit declines three years in a row, they *are* looking, and they don't like some of what they see—and especially some of what they *don't* see and can't find. Along with the malaise caused by Enron, Tyco, and Global Crossing, investors are feeling a crisis of confidence.

I believe that access to crucial information so that individual investors and financial intermediaries can make informed decisions is a strong component of free enterprise. Full disclosure ensures fair competition and creates a playing field that is level enough for all investors to take part in the capital markets. Efficient markets cannot exist in a vacuum, lacking key information. Unfortunately, much of that information is not available in our industry. To be sure, we (specifically, legislators, regulators, audit firms, and industry practitioners together) have made progress in recent years with the "plain English" prospectus, simple and standardized fee tables, better standards for performance evaluation, disclosure of the effect of taxes on returns, and *much* more detailed information available through the Internet. We have taken steps to hold financial fiduciaries more accountable. There are several initiatives "in the works" to make even more information available. Although we are moving in the right direction, I fear that we will spend resources in areas where we will not get the maximum benefit for individual shareholders. In this testimony, I will discuss thirteen areas for improved disclosure, including the difficulty of implementation and potential benefits.

## **Background**

Since Bridgeway is not a household name, I would like to tell you about my background and about the firm I founded almost ten years ago.

I have undergraduate degrees from Swarthmore College in philosophy and in engineering, and graduate degrees from MIT in engineering and from Harvard in business administration. I have worked in academia, a short time in the federal government, in quasi-governmental operating agencies (urban mass transit), and for the last ten years in the mutual fund industry. Six of my years in the transportation industry were in budget and financial management, feasibility studies, and efficiency studies. I spent six years applying numerical methods to stock market investing as a hobby. Then at the end of 1991, I left the transportation industry to refine my quantitative models, to determine the feasibility of starting a mutual fund company, and to write a business plan for Bridgeway. Research is one of my passions. I love trying to make products and systems work better to support people's needs.

In 1992, what I found as an "outsider" researching the mutual fund industry was initially shocking, but on reflection not so surprising. At that time, the industry had already experienced enough years of steady growth to become overly complacent with respect to costs and shareholder interests. I had seen this

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<sup>1</sup>"Is Your Fund Manager Worth \$5 Million?" CBS MarketWatch, March 6, 2003, p. 1.

happen in the oil industry in my hometown of Houston in the 1970's. The tendency in a boom era, whether in private enterprise, academia, or even government, is to lose track of the importance of efficiency and the importance of taking care of clients, constituents, and stakeholders. That excess was "wrung out" of oil industry participants in the downturn of the mid 80's. When I moved back to Houston in 1985, I watched the aftermath of oil prices falling from \$40 to \$10 a barrel on the spot market. It was terribly painful. In 1992, I recognized the signs of excess in the fund industry, and I saw it as a market opportunity to "build a better mousetrap" by focusing on investment performance (through the discipline of a quantitative investment process), and by focusing on costs and an extreme attention to shareholder interests. What I did not realize in 1992 was that the industry would experience another seven years of growth before, like the oil industry, being put "through the wringer" of the most protracted bear market since before World War II.

Bridgeway Capital Management, Inc. was founded in July, 1993 as the adviser to the Bridgeway family of equity mutual funds. The firm has a unique participative and family-like culture. We ascribe to four business values: integrity, investment performance, cost efficiency, and friendly service. The entire staff takes part in Bridgeway's success through our employee stock ownership program and through ownership in the Bridgeway mutual funds. The highest compensated staff member can make no more than seven times the lowest compensated member. Bridgeway is a pioneer in minimizing conflicts of interest: we have no affiliated brokerage or service companies, engage in no soft dollar commissions, rely heavily on performance-based fees, and prohibit portfolio managers from investing in equity securities directly. Bridgeway uses its lean cost structure to close small company funds at low levels, to offer two funds that would not be economically viable at most firms, and to offer some products with lean expense structures. (Bridgeway Ultra-Large 35 Index Portfolio has the lowest expense ratio of any publicly available retail fund in America.) We believe these are among the characteristics that have helped distinguish the advisor and that influence the longer-term performance of our funds.

### **Disclosure**

By uniform, standardized, and improved disclosure, we can spur competition in the mutual fund industry and significantly improve investors' returns over time. Here are thirteen areas for potentially improved disclosure:

#### ***1. Disclosure of proxy voting.***

I am in favor of the legislative initiatives that would require mutual funds to disclose how they vote on company proxies. Shining the light on these actions will encourage fund companies to better exercise their responsibility as fiduciaries and as company owners. At the most basic level, I believe that shareholders have the right to know how we vote. The Internet provides a reasonably cost effective way to disseminate this information, and the industry will find ways to make the cost more efficient over time. On the other hand, proxy vote information is not something individual shareholders desire. Based on a non-statistically significant sample, the vast majority of Bridgeway's shareholders do not care about this information and would not use it if it were available. Thus, while the additional disclosure may help our capitalist system overall (which is why I support it), I believe that only a tiny fraction of shareholders will use the information in choosing funds.

#### ***2. More frequent (quarterly) disclosure of fund holdings.***

At "a gut level," I am in favor of more frequent disclosure. I believe that shareholders have a right to know. However, I do not believe that it is in shareholders' best financial interest overall, and for this reason I am against it. My reasoning is threefold. First, it will cost some money. One estimate of the cost is "only" roughly one basis point of cost. At Bridgeway, we work terribly hard to squeeze the next basis point of cost out of our funds; this requirement works in the opposite direction, increasing costs. Second, to the degree that shareholders do make use of the information, it may increase their selling and buying of funds, which will undoubtedly lead to lower investor returns. There is a growing body of evidence that increased trading of almost all kinds leads to lower returns in aggregate due to transaction costs. Third, the people in the best position to make use of the information are professional traders who would use it to front run some larger mutual funds. There is already significant attention paid to the buying and selling of

company shares at some of our larger fund companies. In spite of the fact that most investment firms complete trades of individual companies within the lag period discussed, there are still trends that are likely tradable and that are easier to discern with more frequent disclosure. In my opinion, this is not the kind of information that will lead to improved competition or higher returns.

### **3. *Disclosure of commission costs.***

Brokerage commission expense is disclosed by mutual funds, but the disclosure is not in a format that facilitates comparison of the efficiency among funds. “Commission cost per average net assets,” is a simple mathematical calculation, which funds could report in the financial highlights table of a fund prospectus, semi-annual, and annual report at virtually no additional cost. In fact, Bridgeway tried to disclose this information in the financial highlights table of our first plain English prospectus, but the SEC required us to delete it because it was non-standard information. They have a good point; it is really only helpful if all funds report it. The best argument against this disclosure is that total trading cost (see section five below) is a much more important and relevant number. Indeed, it is theoretically possible to decrease commission cost to the detriment of total trading cost, so that disclosure of only one component (commissions) could be counterproductive. My own opinion is that the commission cost structure of our industry is so broken and riddled with conflict of interest that disclosure of even this one element would be an improvement.

### **4. *Disclosure of soft dollar commissions.***

Apart from affiliated brokerage and directed brokerage, the practice of soft dollar commissions is one of the worst examples of undisclosed conflicts of interest in the mutual fund industry. The term “soft dollar commissions” refers to an agreement between a broker and an investment adviser, by which the broker supplies a variety of products or services from research to software, hardware, data, or other services in return for a certain volume of business to the broker. The problem with this legal arrangement is that the adviser receives the immediate benefit, while the shareholder pays. There is inadequate incentive for the adviser to keep trading costs low. Some would argue that ultimately, the shareholder would pay these appropriate expenses anyway, that they are disclosed in the adviser’s Form ADV to clients, and that they are adequately reviewed by fund boards of directors. I would argue that shareholders should only pay these expenses through the management fee. After all, via the management contract, the shareholder hires the adviser to manage the portfolio, which includes stock-picking tools. I also believe that the level of information typically disclosed in the Form ADV is far from adequate and that the conflict of interest is simply too great to handle by disclosure and review. A confirmation of this situation is the response of vendors when we tell them that Bridgeway will be paying with “hard dollars.” I had one software salesman look at me incredulously and say, “Why on earth would you pay for this with your own money when you could pay for it with soft dollars?” In other words, why not use someone else’s money to pay and just not worry about it? The answer is that it is not in our shareholders’ best interest—Bridgeway’s first criterion for evaluating the appropriateness of a course of action. The bottom line: Congress should *not* work to improve disclosure of soft dollars; it should simply stop the practice altogether. Ultimately, this will improve the quality of decisions made on things soft dollars buy, save shareholders some money, and greatly reduce the time that advisers, auditors, regulators, and lawyers spend trying to document the fairness of a firm’s practice. As a fellow Texan said, “If you see a snake, just kill it—don’t appoint a committee on snakes.” This is one snake we just need to kill.

### **5. *Disclosure of total trading cost, “the other operating expense ratio.”***

The simple math on the importance of trading costs is eye opening. Trading costs are the total cost of buying or selling a position in a security. The problems with trading costs are that they are so difficult to measure and that they are transparent to the individual shareholder. (Trading costs are capitalized in accordance with generally accepted accounting principles and included with the purchase price of securities held.) The first part, commission costs, is definitive and easy to measure, but it is the smallest part of the pie, or as Plexus Corporation likes to put it, “the tip of the iceberg.” The second part is “impact cost,” or the unfavorable market impact a buyer or seller has on the market price of a security. Thus, if I am buying 100,000 shares of a given company, my purchases themselves will push up the price of the stock, so that

the last shares I purchase are typically more expensive than the first ones. The third part is opportunity cost. As a trader, I can minimize the magnitude of the impact cost by stretching out my trading over a longer time period. However, if my purchase idea is a good one, I run the risk of someone else getting there first and driving up the price before I can establish even a partial position.

Appendix One illustrates the dynamics of the components of trading cost with a specific example. What does the larger picture look like for the whole industry? If we take an average trading cost of roughly 1% (probably conservative) for a fund investing in larger companies, but a turnover of 100% (turnover of 100% means the fund buys and sells the equivalent of the entire fund in one year's time), the total trading cost would be 1% for purchases plus 1% for sells or 2% of the value of the funds in a year. This is significantly more than the entire operating expense ratio of such funds. For small company funds, the trading costs are roughly twice this high. Thus, to "beat the market," the portfolio manager of an actively managed large company fund must add back value equal to the operating expense ratio (say 1.4% on average) plus 2% in trading cost. This is a *huge* performance hurdle to overcome and highlights the need for *some* way to provide shareholders with information on its magnitude. While the numbers are difficult to measure, I believe that the state of the art on trading cost measurement has reached the point where the mutual fund industry should commit to disclosing some basic information to shareholders. I defer to Wayne Wagner of Plexus on this point, since it is the core of his company's business. In Bridgeway's case, the adviser pays "hard dollars" to Plexus twice annually for such an independent review. We make their report available to our Fund board of directors, but not to the investing public, for competitive reasons. However, if all funds disclosed such data, we would be willing and happy to do so.

#### **6. *Better access to mutual fund prospectus and statement of additional information disclosure***

While we have made tremendous strides in the usefulness of prospectuses over the last few years, we have yet to make it easy to locate these documents. Based on my search of seven fund companies that have products I respect, only four had prospectuses available within three "clicks" of their home page. At two sites, I was unable to find prospectuses online after 10 clicks. Only two sites had statements of additional information available online. Visiting the SEC.gov website, you may get lucky: searching for a specific Bridgeway fund will get you to the right Edgar filings, since we have only one prospectus for all our funds. Type in the specific name of a fund at a large fund company, however, and you may be searching a long time for the corresponding legal name of the fund. Why not just cross reference all funds by specific name and ticker symbol? Once you do find the correct filing, it is listed as "post-effective amendment (Rule 485(b))." How many individual investors understand this to be the prospectus or the document they need to read before investing?

#### **7. *Standardized industry expense, performance, and operating information***

When I worked in the urban mass transportation industry, there was uniform data on system expenses, passengers, and other very helpful operating data with enough detail to establish some best industry practices. Twenty years later, there is no similar, easily accessible database for the mutual fund industry. When we want such information, we have to rely on increasingly expensive data from one of the rating agencies or gather the information manually from prospectuses, annual reports, and other Edgar filings. Some information is in the Edgar system, but it is not downloadable, expense categories are not standardized, and it is *terribly* time intensive to access information across fund families. The federal government is in the strongest position to take the lead on this. I envision information like that submitted by fund companies on Form NSAR, but with standardized, detailed expense and revenue items and Internet access in a database format. Standard reports and comparisons could also be made available on the SEC web site.

#### **8. *Disclosure of fund marketplace costs***

A problem that has been on the horizon and is now getting bigger is the increasing cross subsidization resulting from mutual fund marketplaces, the "one stop shopping" brokerage houses that offer funds from many fund families. True, these marketplaces have been a boon to the industry. In fact, at some fund families, a majority of shareholders have their accounts at these marketplaces. The problem is that some of

the largest marketplaces are raising fees charged to funds (“invisible” to shareholders) up to a 0.40% per year, while others charge nothing for essentially the same services. Mutual funds cannot pass the specific fee to shareholders for their chosen marketplace. We must penalize the shareholders that use the lower-cost alternatives by spreading the costs across all accounts. For the marketplaces, there is little incentive on their part to keep these costs low, if they believe they will be passed on and spread across a larger base of shareholders at all other marketplaces, and if their own customers do not see the fee increase. Thus, costs associated with shareholders of an expensive marketplace are paid equally by all shareholders, and this is neither transparent nor disclosed to shareholders at all. Therefore, shareholders cannot consider true services and costs in making decisions.

One solution is for the fund managements to “just say no.” However, the ubiquitous marketplaces wield much power in the negotiation with funds, and “just saying no” is not likely to happen on a large scale. The fund marketplaces are likely to be able to extract increasing fees (or from the marketplace viewpoint, charge fair fees for a high level of service and distribution). My proposal is twofold. First, we require the marketplaces to disclose to shareholders the average fees they are charging mutual fund companies to participate in their marketplaces. Second, we require funds to disclose in the prospectus the fee rate paid to any fund marketplaces that represent more than 2% of outstanding shares for a given fund. Then at least these fees would be transparent and shareholders could also set their own limits or “vote with their feet.”

#### ***9. Disclosure of manager salaries***

When we invest in individual companies, we have the right to know the compensation of the company leaders. When we invest in mutual funds, we are in the dark. At Bridgeway we believe that investors should know the actual compensation and structure of that compensation as it relates to the fund's management. To the best of my knowledge, Bridgeway is the only mutual fund company that voluntarily discloses portfolio manager pay in its statement of additional information. The argument against this disclosure is that net profit for shareholders of a publicly held corporation is net of executive compensation, which can be a significant portion of total expenses. In the case of mutual funds, manager compensation can rise and fall, but it does not affect the management fee actually paid by the fund. While this is true, I still think compensation structure and level may strongly affect portfolio manager incentives and the decisions he or she makes on behalf of a fund. Our industry's refusal to disclose it contributes to the aura of “withholding important information” and “misleading shareholders” that some shareholders perceive in the current environment. This is the time for the industry to step up to the plate and disclose pay for portfolio managers and corporate senior managers.

#### ***10. Disclosure of adviser policy on portfolio manager investing in securities in which the fund may invest***

A portfolio manager's investment in securities that his or her fund could also own is one of the clearest conflicts of interest. The SEC has cracked down on the worst cases of abuse involving “front running,” a manager buying a stock and then investing his or her fund in it, to run up the price and benefit personally. I suppose this abuse just does not exist any more. However, many advisers allow their managers to own stocks directly within certain guidelines of timing buys and sells. Imagine the portfolio manager of a small company fund who finds a stock with limited liquidity. He could buy the stock for the fund or skip the fund and purchase it directly. Most advisers' codes of ethics would not preclude this. But as a shareholder, I want to know that the best ideas of the portfolio manager are going into my fund. The best way to avoid this conflict is to preclude managers from owning securities directly that their fund could also own – or disclose the policy.

#### ***11. Disclosure of portfolio manager holdings of the fund(s) he or she manages***

Funds are currently required to disclose fund ownership by officers and directors, but not individual portfolio managers. As a shareholder, I would really like to know, “Is the portfolio manager eating his own cooking?” This disclosure would be easy to do.

## **12. Board disclosure**

Over the years, I have examined the record of some of the consistently worst-performing funds and wondered, “Where *are* their boards of directors?” Unlike the boards of privately held firms, non-profit organizations, or even publicly traded companies with multiple constituencies, a mutual fund's board really exists *only* to protect the interest of its shareholders. Nevertheless, five mutual funds declined by more than 20% per year over the last five years; three of these had dismal returns for the four or five years before this. The average expense ratio of these five funds is 11.5%, more than the entire average annual return of the stock market. How can these funds hope to make *any* return for shareholders? Why doesn't someone put them out of their misery?

Each year the independent members of a fund's board must approve a management contract or continuation of a management contract with an adviser. They are required to consider such aspects as performance returns versus peers, returns versus market, cumulative returns, operating expenses and usage of such expenses. Most fund boards will document this evaluation in the minutes of their meeting. Why not disclose the basis for every fund board's decision to renew the management contract in the statement of additional information? As a shareholder of another fund family's bond fund (Bridgeway offers no bond funds), I would like to know what the board thinks and how it arrived at its decision. In addition, we should look for ways to make the boards take more responsibility for relative performance. Some of my preliminary thoughts include: Why not make the board put the management contract up for bid if the current advisor shows repeated underperformance? For example, if the advisor is in the bottom quartile for five of six years, or if the advisor is in the bottom quartile for three of four years and has a net expense ratio in the bottom 10%, mandate that the contract is opened to competitive bids. This type of requirement combined with the disclosure I just mentioned would do much to make the board more accountable to the shareholders.

## **13. 12b-1 Disclosure**

Section 12b-1 of the Investment Company Act of 1940 was written to provide a way for fund shareholders to foot the bill for advertising, marketing, and distribution costs. The theory was to curtail abuses and to help grow fund assets so that costs would be spread over a larger base. Some forms of abuse have undoubtedly been curtailed under the plan, but I believe it has been largely ineffective in the latter goal. If advisers benefit from some increased assets, but shareholders foot the bill, there is an incentive to overspend on distribution costs. At any rate, fund boards of directors review these costs in detail quarterly, and presumably talk about their effectiveness in raising assets or improving quality of service. This kind of information should also be made available to shareholders. Shining more light on the evaluation process should hold boards and management companies to a high standard.

### Addendum—Chasing past performance

I have one final issue that concerns education rather than disclosure.

One of the saddest things about the investment community is that practically the whole system feeds a buy high, sell low mentality. Investors focus on historical three year, (more often) one year, or even shorter timeframes. Journalists write most frequently about managers who have performed the best over these same time periods. Many brokers push the same recent “winners.” Investment management firms pour their advertising budgets and sales pitches into the products that have performed the best recently. Rating agencies rate funds statistically, only to fall into the same trap when it is time to recommend specific funds. Each party can claim that it is not their fault. For example, investors can blame the management firms or brokers that pushed a product or a specific article touting a product, or a barrage of sales literature. Journalists ultimately have to write about what sells. (Long-term performance doesn't change much daily or even monthly and issues such as disclosure get pretty boring after a couple of articles.) Management firms aren't going to spend advertising dollars on recently poorer performing funds that no one would buy.

Let me illustrate this point with a couple of thought-provoking studies on the damage of “chasing the hot fund” that have been completed over the last 10 years. Morningstar studied 199 no-load growth mutual

funds over the period 1989-1994. Their findings showed that while the average annual return for these funds over this period was 12.0%, the average mutual fund investor received a return of just 2.0%. How can this be? Over this same time period the average mutual fund investor only held a particular fund for 21 months as they jumped in and out, or across funds. This market timing cost them 10% return. Another popular study done by Dalbar on investors in equity mutual funds from 1984-1996 found that investors on average earned 10% less than the funds over the same period. Their conclusions were the same. As people tried to hop to the hottest fund they basically destroyed value. These are only two of the many studies that have shown that chasing the rear-view mirror performance is not a good strategy.

An analysis that I did with Bridgeway portfolios tells the same story. Simply invest each year in the Bridgeway portfolio that has done the poorest over the previous three-year period. The results are pretty interesting. If you followed this strategy starting five years ago (the first year we had a three-year record), \$10,000 would have turned in to \$21,521. If you followed the opposite strategy, investing in our fund with the *best* trailing three-year record, \$10,000 would have turned into \$10,732. Now, this is an interesting exercise that demonstrates the perils of chasing recent hot performance. It is not statistically significant—five years is not enough data upon which to base an investment strategy—and I still recommend choosing funds in accordance with your investment needs.

Nevertheless, it is our human nature to invest after recent strong performance (buy high), then sell when things pull back (sell low). How can investors avoid it? By keeping a long-term perspective, setting an asset allocation or financial plan commensurate with risk tolerance and investing time horizons, and then sticking with it. This will take a tremendous education effort on the part of fund companies, the media, and government if we have any hope of improving the situation.

### **Conclusion**

If mutual funds are going to address increasing public distrust in the environment of a bear market, if we are going to continue to play a major role in giving access to the wealth of this nation through security ownership, we are going to have to earn it. We need to pursue the interests of individual shareholders relentlessly, and we need to ensure that adequate information is available for shareholders and their advisors to make informed decisions.

Finally, I want to thank the Committee for the opportunity to testify this morning. I would be happy to entertain any questions you may have.



## Appendix One

### Illustration of the Components of Trading Cost

This appendix illustrates the components of trading cost with a specific example, the purchase of 100,000 shares of XYZ Company. After identifying the purchase, one of Bridgeway's trading staff tells me the bid (the price at which a broker or market maker is willing to buy some shares of stock from me) is \$29.95 and the ask (the price at which a broker or market maker is willing to sell some shares of stock to me) is \$30.05. For the sake of argument, let's say the real "worth" of the stock is half way between, or \$30.00. The trader also says that the "size" on the ask is 2,000 shares, which means that the total number of shares advertised at \$30.05 is only 2,000 shares. So, if I act fast enough, I know I could buy 2,000 shares for \$30.05. The total trading cost for these 2,000 shares would be \$0.05 per share for commission (roughly the average industry commission; Bridgeway's actual commission cost is lower) plus \$0.05 per share for the difference between the ask and the stock's true worth. My total trading cost would be \$0.10 divided by \$30 or 0.33% of the trade. I would be very happy with this, except that I have 98,000 more shares to buy and there may be no more shares available to buy at \$30.05. Since the broker knows I usually buy a lot more than 2,000 shares, he or she may raise the ask much more than a couple of pennies. So I have two major alternative trading strategies. I can disclose the full size of the trade to the broker and let him or her bid on it. This is where significant negotiation goes on. We may agree on a price for all 100,000 shares of \$30.25; then I know my trade is completed and I won't miss out because of an overall increasing market or because another large buyer enters the market and drives up the price of XYZ company. The total trading cost of the trade would then be \$0.05 commission plus \$0.25 (the difference between the actual price and what XYZ is worth) divided by \$30 or 1% of the value of the trade. Depending on the liquidity of the stock (how many buyers and sellers there are at what level of volume), this might be a very attractive price. On the other hand, I could hope that I could establish this position over the next few days for an average price closer to \$30.00. I might buy 2,000 shares now, advertise (offer to sell) 5,000 more at only \$29.98 and take a "wait and see" stance. If the market declined at some point over the next few days, I would have likely bought the additional 5,000 shares and now I might get more aggressive, buying more shares at a lower price. Let's say that the maximum price I'm willing to pay for XYZ Company is \$31.00. Let's further assume over the next three days I have accumulated 60,000 shares of stock with an average price of \$29.98. I'm very happy, except that now the DOW average rises 200 points, the new bid and ask of XYZ Company is over my limit of \$31.00/share and the stock never comes back in to my buying range. Let's say a month from now the average between the bid and ask is \$32.00/share. I own 60,000 shares at a cost of only \$30.03 (purchase price plus commission), for a nice one month unrealized gain of 6.6%. However, the opportunity cost of not executing the full 100,000 share order is \$32.00 minus \$30.00 times the other 40,000 shares equals a whopping 6.3% on these shares. Then the total trading cost on my full 100,000 share order would be \$0.05 commission minus \$0.02 I saved for my patience getting a better price times 60,000 shares plus 40,000 shares times \$2.00 (my opportunity cost) divided by 100,000 shares. Doing the math we get a total trading cost of \$81,800 or 2.73% of the value of the trade. If we stop the analysis at just one month, I would have come out ahead in the first trading strategy, getting the trade done more quickly.