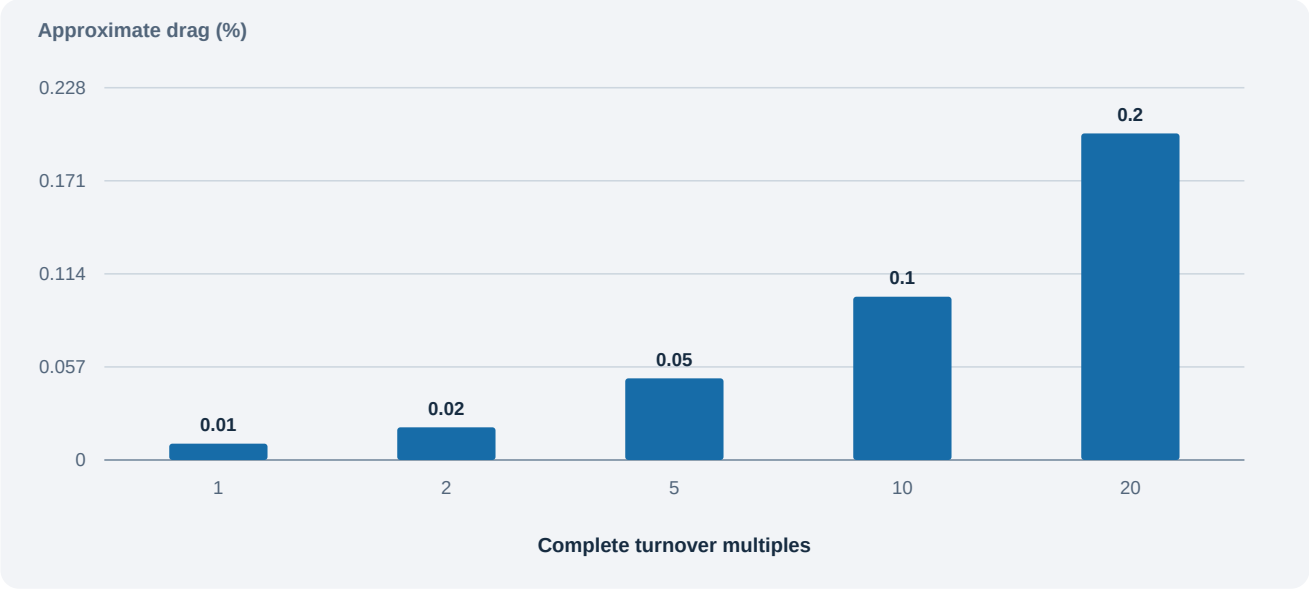
Turnover and proportional costs

Execution arithmetic | Original synthetic example | Edition 2026-11-26

If each full portfolio turnover incurs a constant proportional cost, more turnover increases the cost drag. This arithmetic estimate excludes price impact and nonlinear liquidity effects.

FORMULA Approximate drag = turnover multiple x cost per turnover

SCENARIO 01: Each complete turnover costs 1 basis points



WORKED EXAMPLE

Five turnovers at 1 bps each cost about 0.05% of the referenced capital, without compounding.

COMMON MISTAKE

Treating a low per-trade charge as negligible ignores how frequently it is paid.

BEFORE YOU USE THE CALCULATION

1. Define one-way or round-trip turnover.
2. Use the same convention for costs.
3. Stress higher turnover during choppy periods.

COMPARE TWO MORE INPUT SETS

Scenario 05: Each complete turnover costs 7 basis points. Five turnovers at 7 bps each cost about 0.35% of the referenced capital, without compounding.

Scenario 10: Each complete turnover costs 50 basis points. Five turnovers at 50 bps each cost about 2.5% of the referenced capital, without compounding.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.