

## **Quants Seek New Strategies**

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After a 10-year period that saw the use of quantitative investment methods increase about twice as fast as traditional methods, quant investing experienced a setback when performance lagged through the financial crisis of 2008-2009. Yet rather than stifle the implementation of quant strategies, the underperformance may present an opportunity to reinvent the quant wheel.

“Some observers have prematurely dismissed quantitative investing,” said Margaret Stump, chief investment officer at consultancy Quantitative Management Associates. “There is still solid theoretical and performance support for quant investing. Additionally, there are many unexplored ways to use quant strategies.”

Stump cited research that highlights misconceptions about quant fund performance in troubled times.

“Many quant models correctly identified underperformers during the onset of the crisis. Unfortunately, institutional constraints often prevented quants from selling these stocks short,” Stump said last week at a gathering of financial-services quant professionals organized by the Quantitative Work Alliance for Applied Finance, Education and Wisdom. “The best-performing stocks during the initial rebound were extremely low-priced -- many of them were trading at prices below \$1. Because quant models typically consider the prospective costs of purchasing a stock, the wide bid-ask spreads associated with these extremely low-priced stocks tended to work against their purchase, even though models often found them to be attractive.”

Although quant methods did not beat industry benchmarks during the financial crisis, there is little or no evidence that giant asset managers such as BlackRock and D.E. Shaw are scaling back their use of quant methods, and practitioners say the strategy still presents an advantage over traditional investment methods.

The popularity of turning to computerized models to identify trends, patterns, and correlations has been grounded in the belief that computers are not subject to human biases, according to Indrani De, Director of Quantitative Research at New Amsterdam Partners.

“There's a lot of mispricing in the market, and this creates good investment opportunities for investors,” De said. “Quantitative analysis allows us to systematically identify such mispricing. It allows us to consider a much larger pool of stocks than otherwise possible, and makes it easier to keep aside the human biases and stick to the core investment beliefs.”