

Quant is dead ?

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“Experimental Science”

“Machine Dreams” (Economics becomes a cyborg science)

The “New Finance” – Some Canonical Papers

- Shiller (American Economic Review 1981)
 - “ Do Stock Prices Move Too Much Too Be Justified By Subsequent Fundamentals”
- Porteba And Summers (Journal Of Finance 1984)
 - “ Stock Market Over-reaction And Subsequent Mean Reversion”
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- Sloane, Richard (The Accounting Review 1996)
 - “Do stock prices reflect recent information in accruals and cash flows about future earnings”

The “New Finance”

- Prices are too volatile
- Prices mean revert over very short horizon (1M)
- But mean avert at short to medium horizon (6-18 M)
- And mean revert at long horizon (+36M)

The “New Finance”

- These price dynamics (might) imply that:
 - Hi value stocks are “too cheap”
 - So Value “Outperforms”
 - Lo cap stocks are “too small”
 - So Lo Cap “outperforms”
 - “Momentum” “outperforms”
 - “Shocks” are “over-extrapolated”
 - So “revision” and “surprise” “outperform”

The “New Finance”

- It Might Not Be “True”

- Maybe it's About risk (e.g. Harvey 1994 etc.etc.)
- It's “wrong” (e.g. Kothari 1995 etc.etc.)

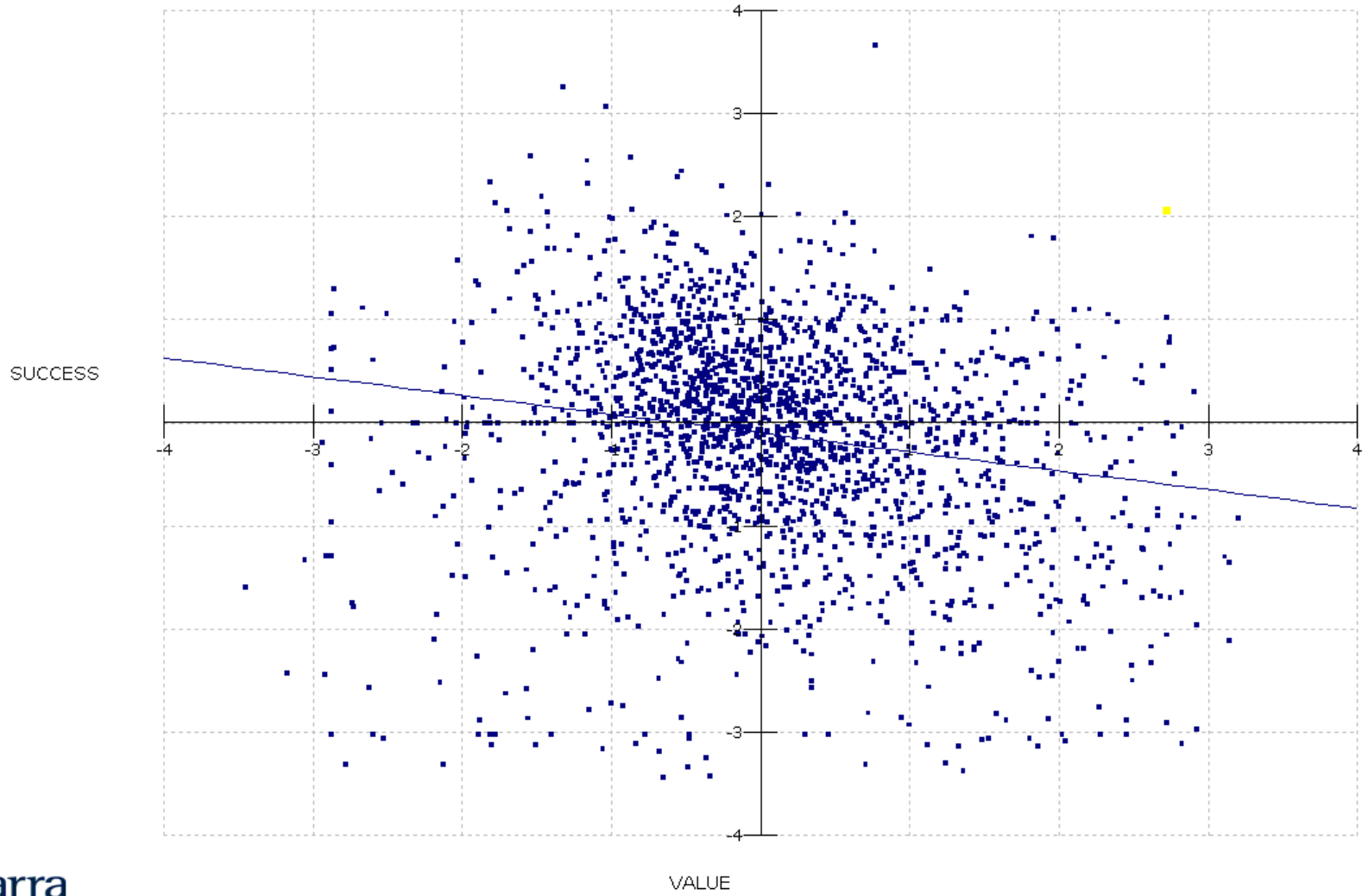
But *Massively* Influential

- Most “Active Quant” strategies begin and end with the lessons from this literature....

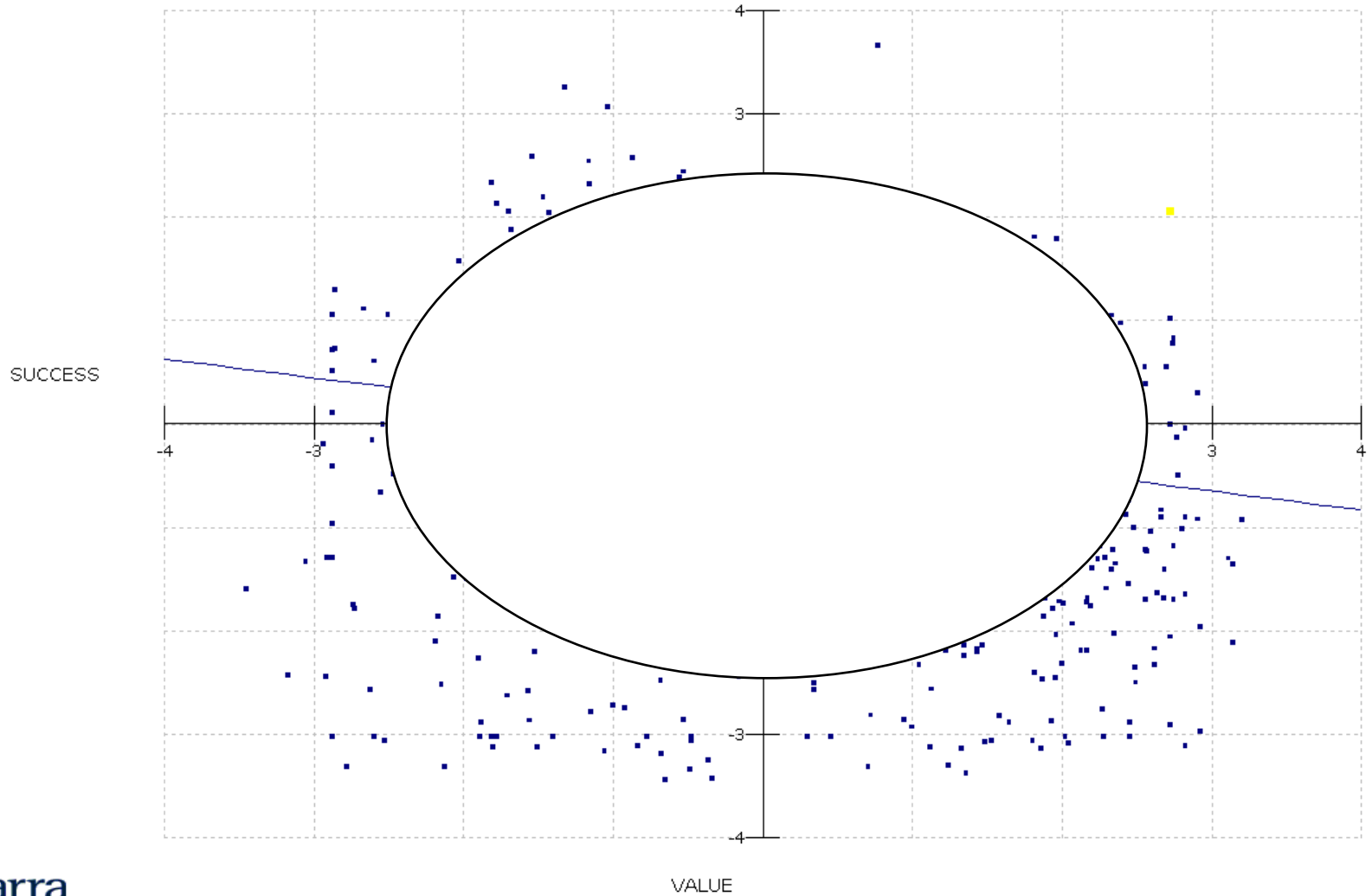
Active Strategies

- Fact Based
- Forecast Based

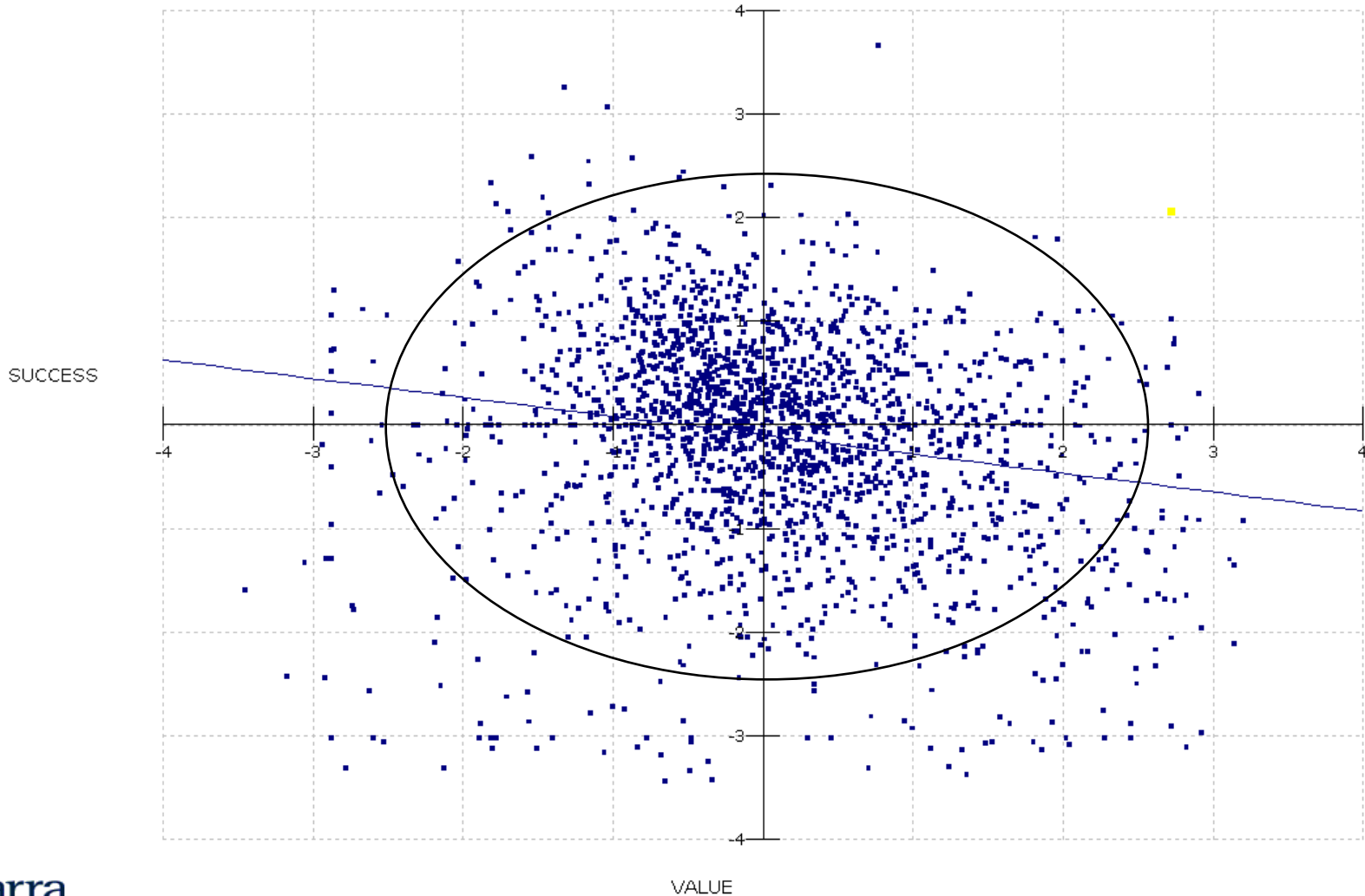
FTSE World Index - Value / Momentum



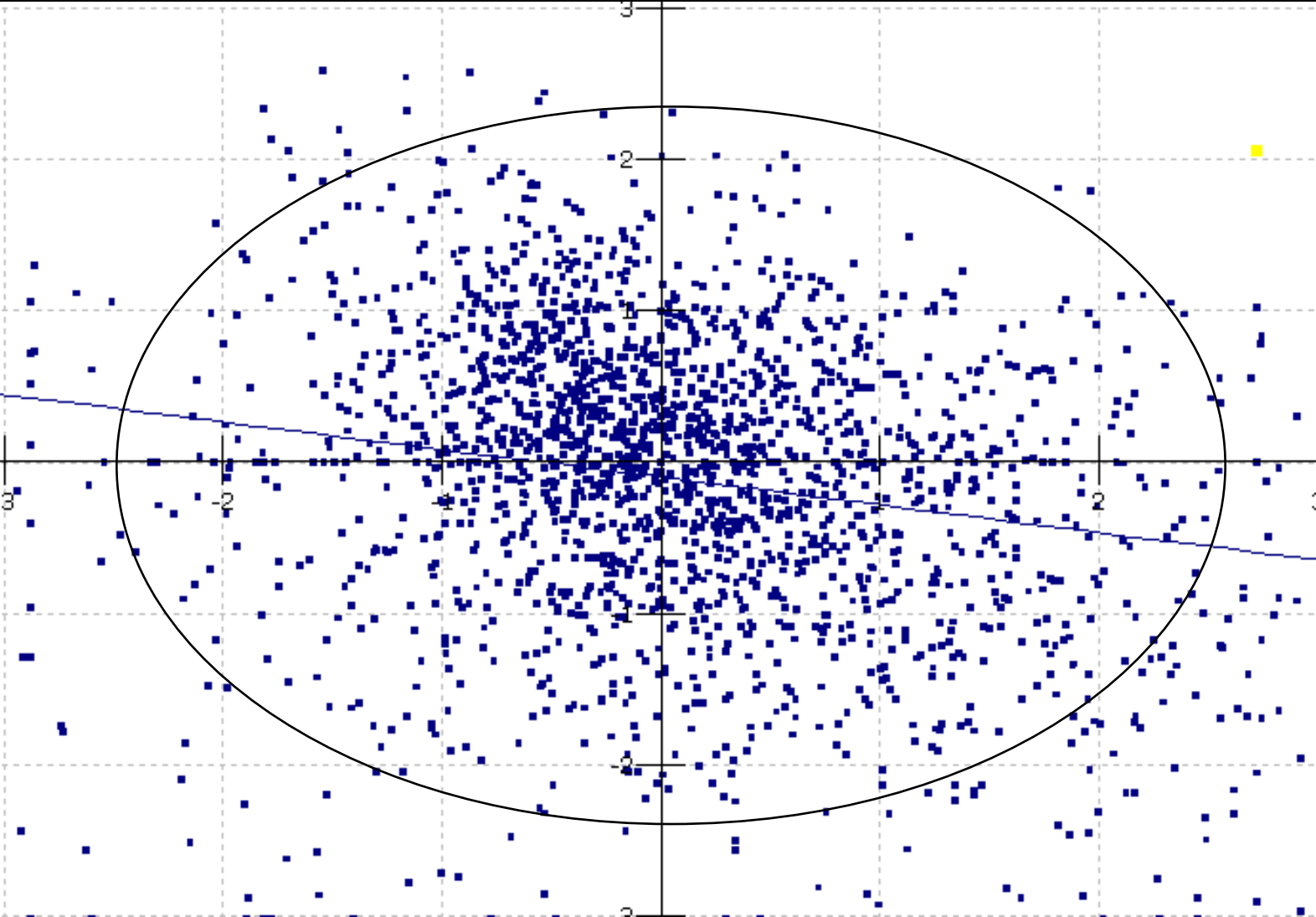
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A "Quant Process"

VALUE

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VALUATION

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VALUE

VALUATION

QUALITY

A "Quant Process"

VALUE

VALUATION

QUALITY

PRICE MOM

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VALUE

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EPS MOM

A "Quant Process"

VALUE

VALUATION

QUALITY

PRICE MOM

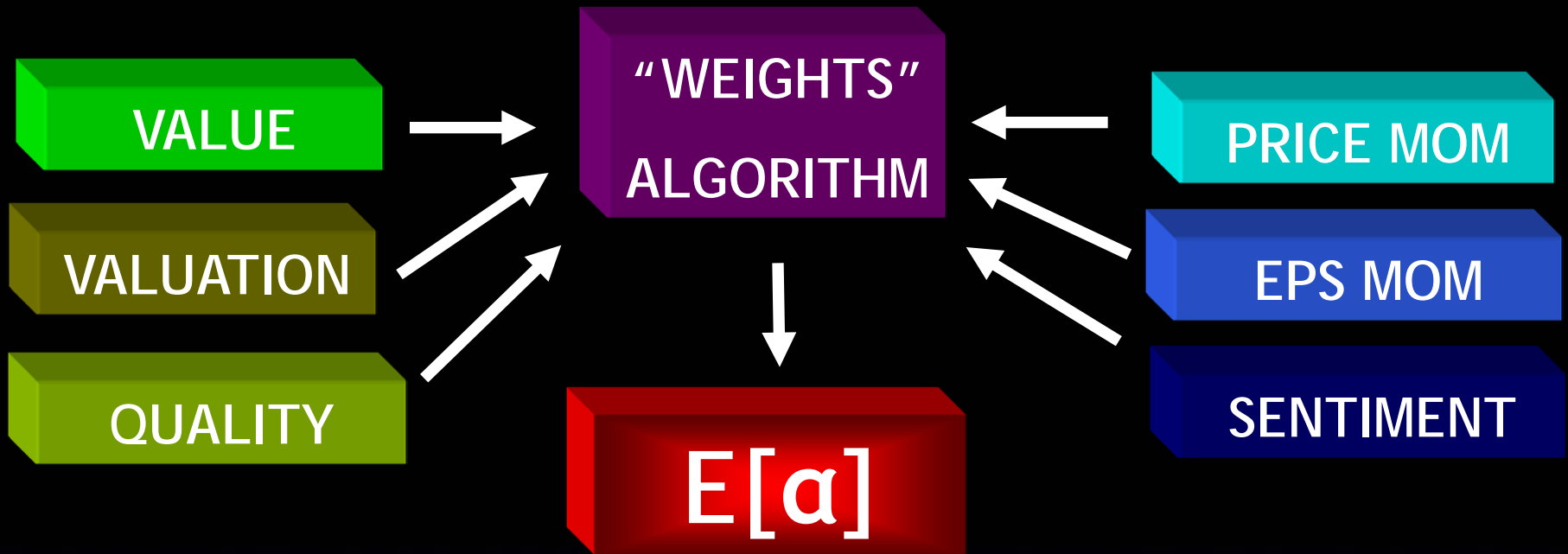
EPS MOM

SENTIMENT

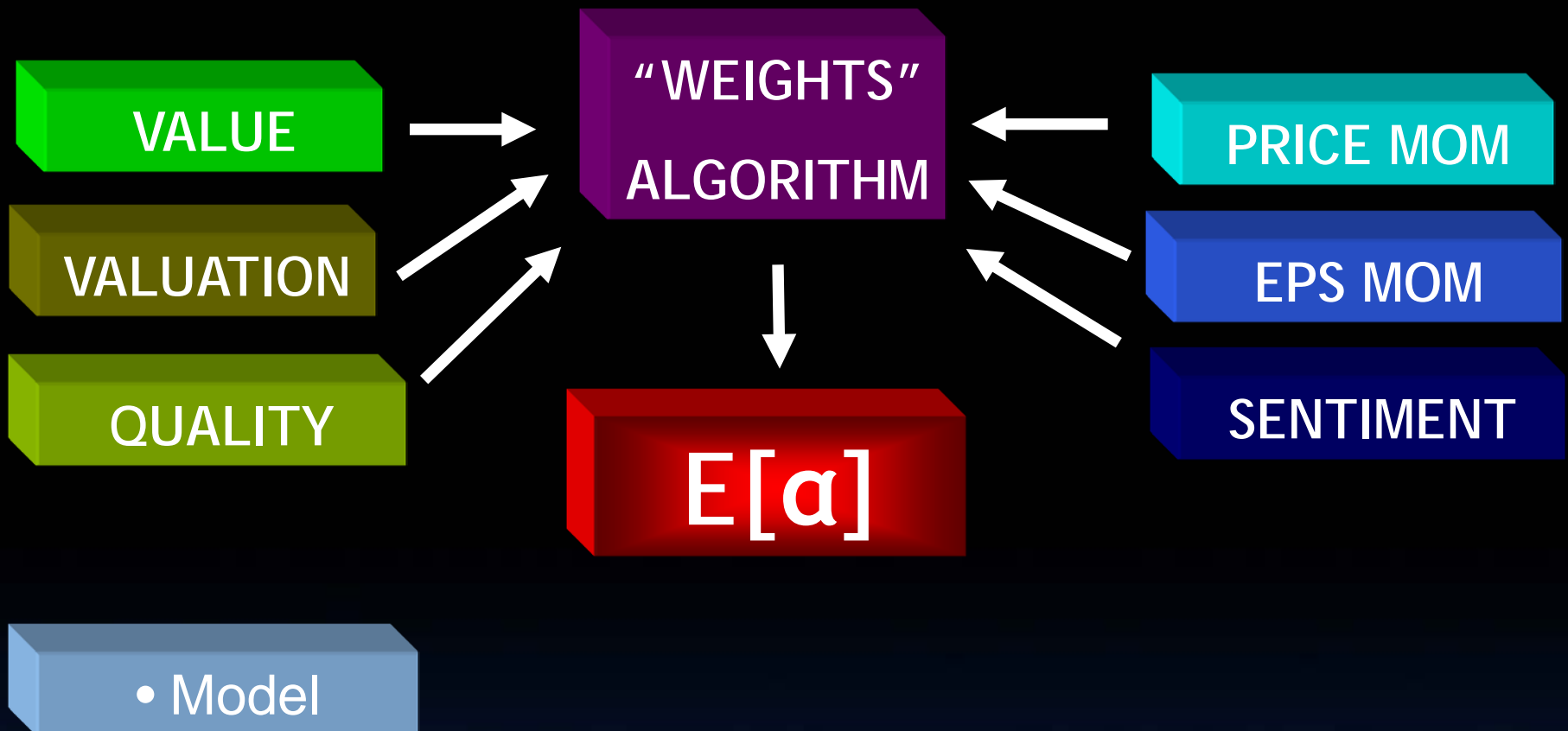
A "Quant Process"



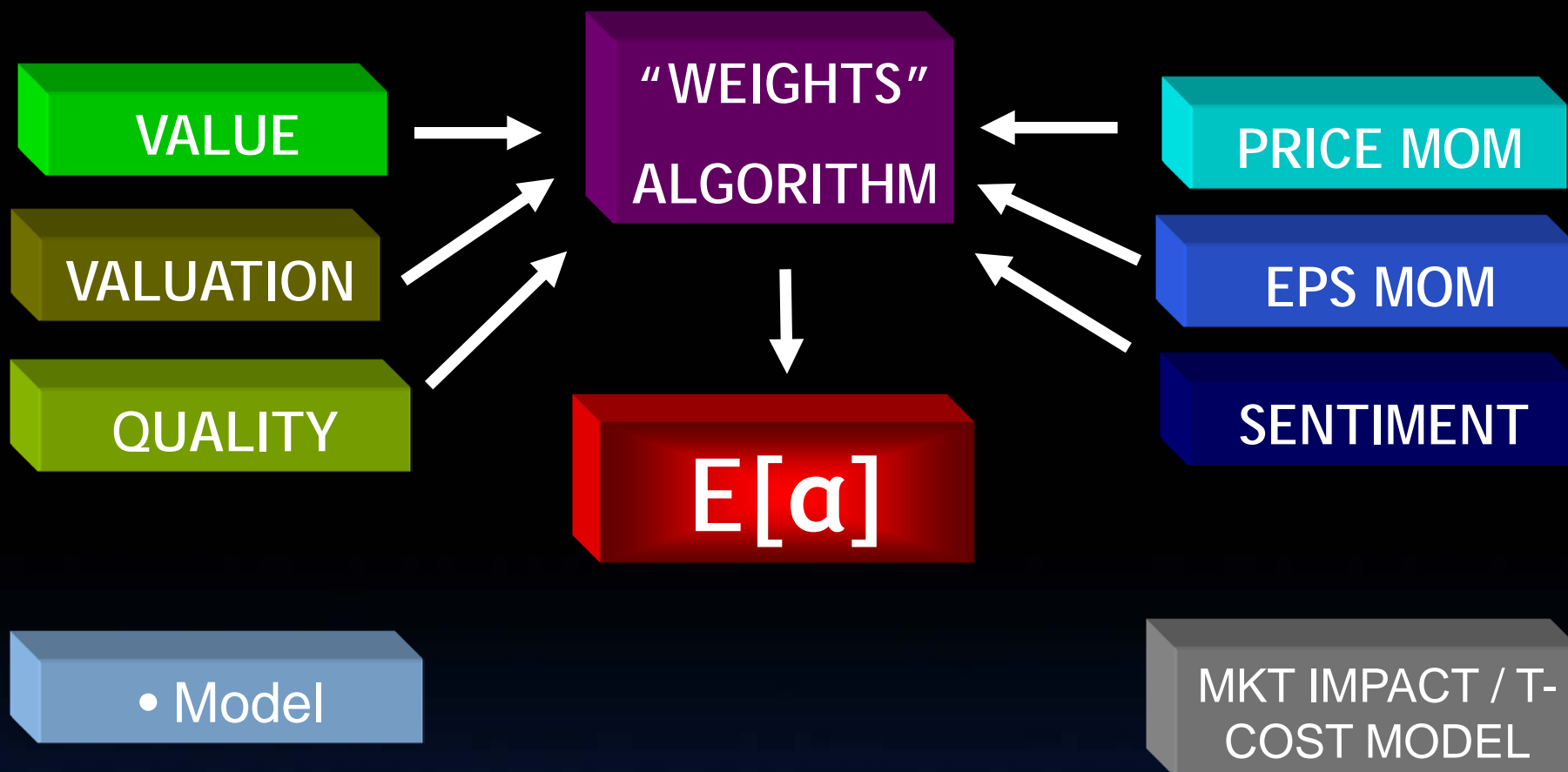
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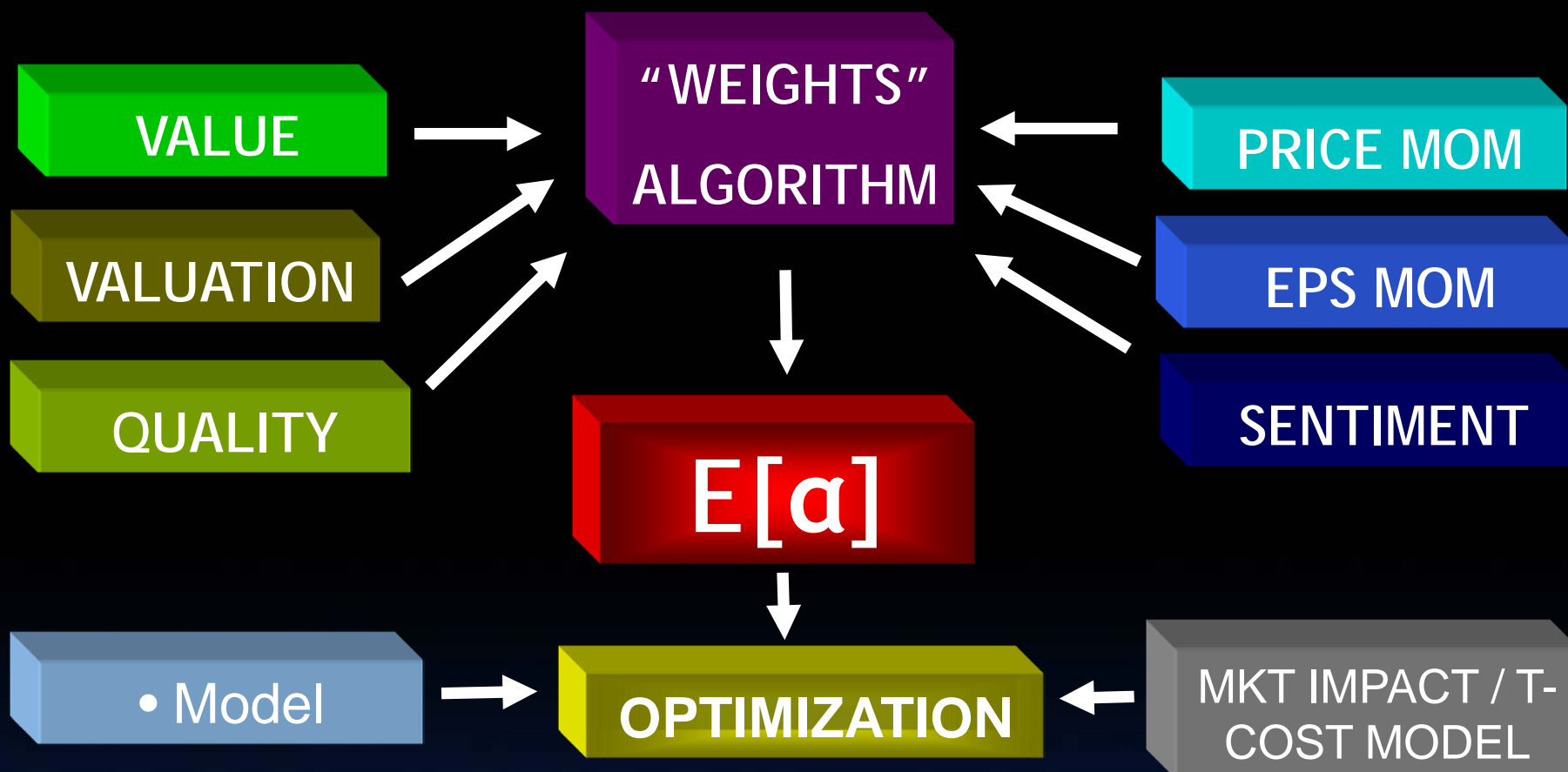
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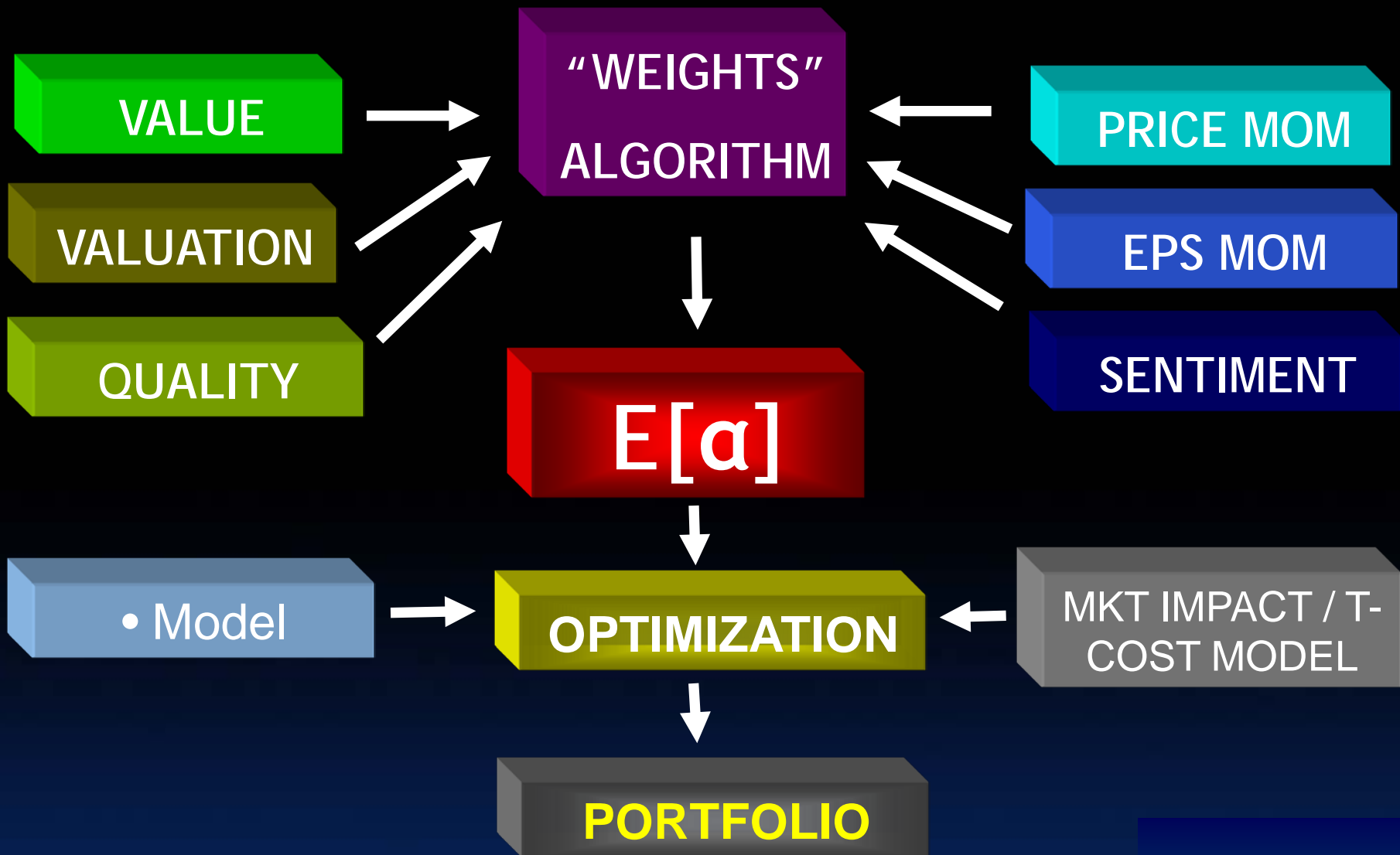
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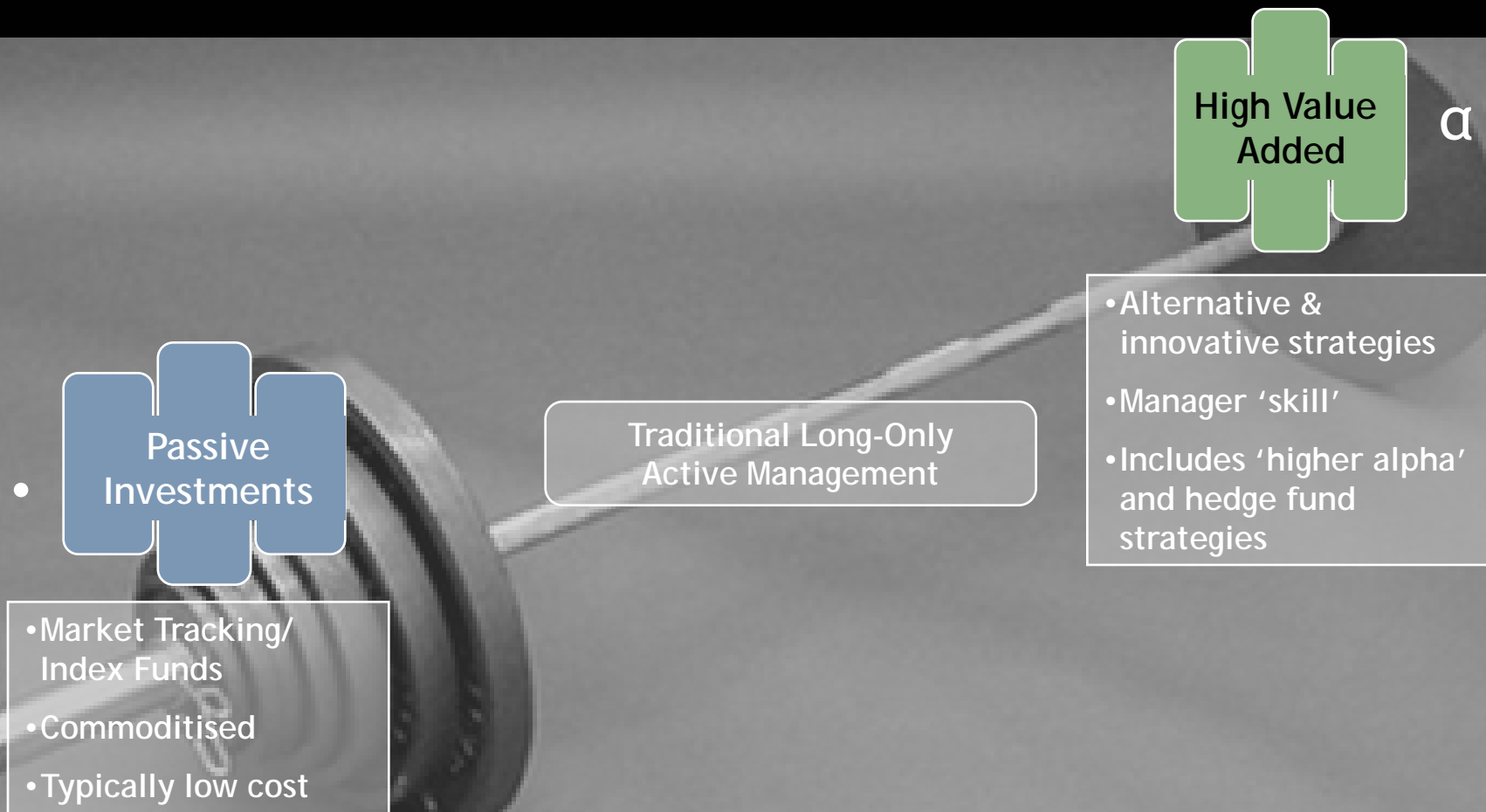


Asset Management Landscape

July 2007



The Bar Bell

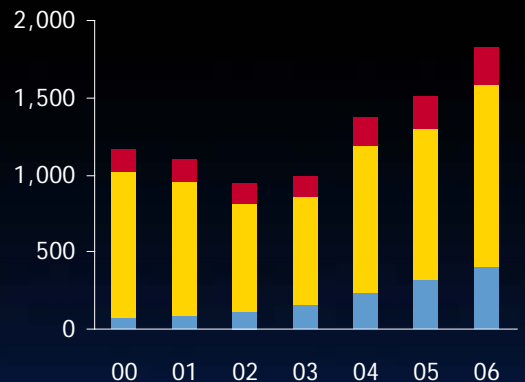


The Bar Bell

Traditional core products are losing ground

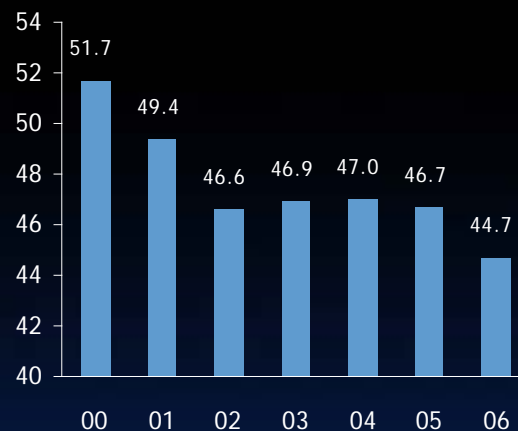


Passive Investments Institutional AUM (\$Bn)

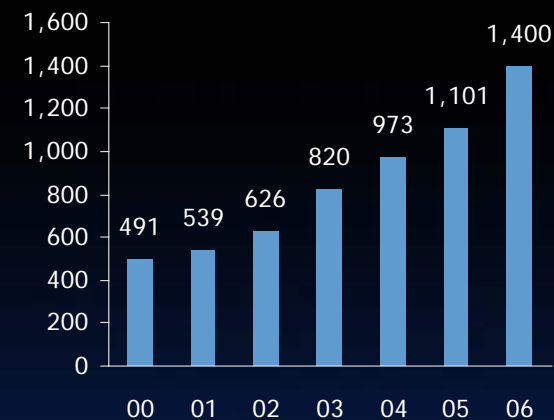


■ ETFs ■ Passive Domestic Equity
■ Passive International Equity

Traditional Long Only Active Institutional Allocations (%)



Hedge Funds AUM (\$Bn)



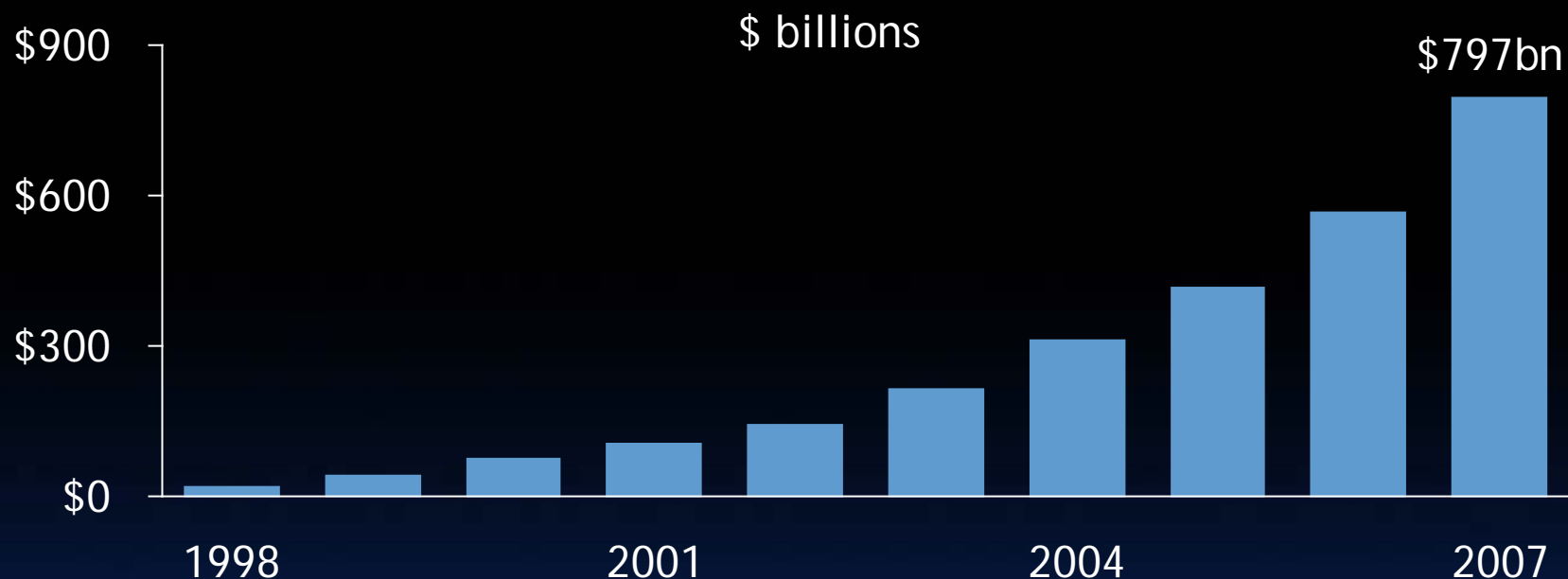
Source: Morgan Stanley Investment Strategies, Bloomberg, Pensions & Investments, Greenwich Associates, Hedge Fund Research. US Data



Growth of ETFs

There are over 1000 ETFs now managing c. \$800bn worldwide

Cheap beta products pose a substantial threat...

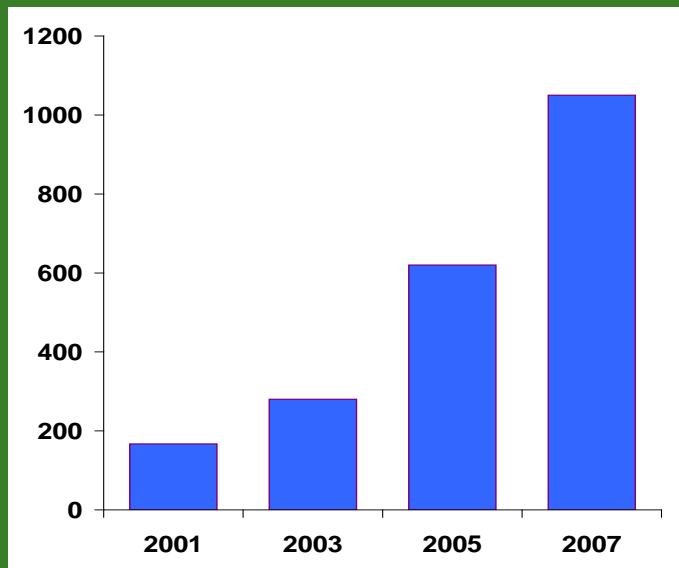


The Rise of Active Quant

Passive players are rapidly expanding active quant capabilities



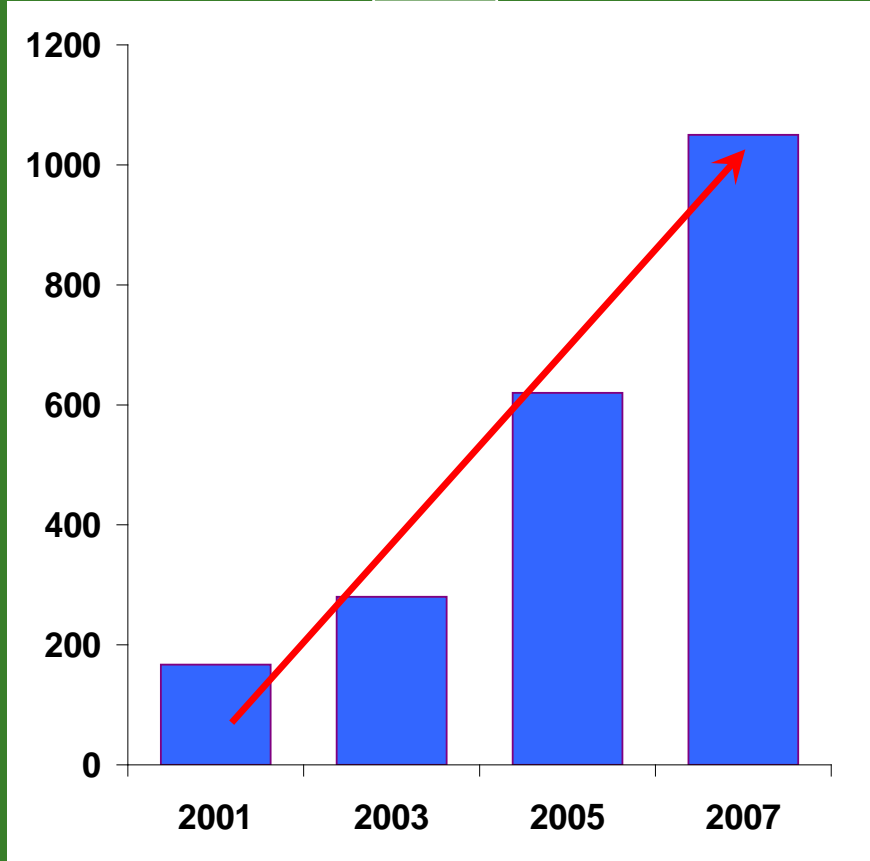
- We are seeing non-index strategies being launched from passive houses
- Changing the shape of competition in our market
- 200+ managers that primarily use non-index quantitative strategies
- Firms primarily using non-indexed quant strategies manage over \$1000bn globally



AUM of managers that primarily use non-index quant strategies \$bn

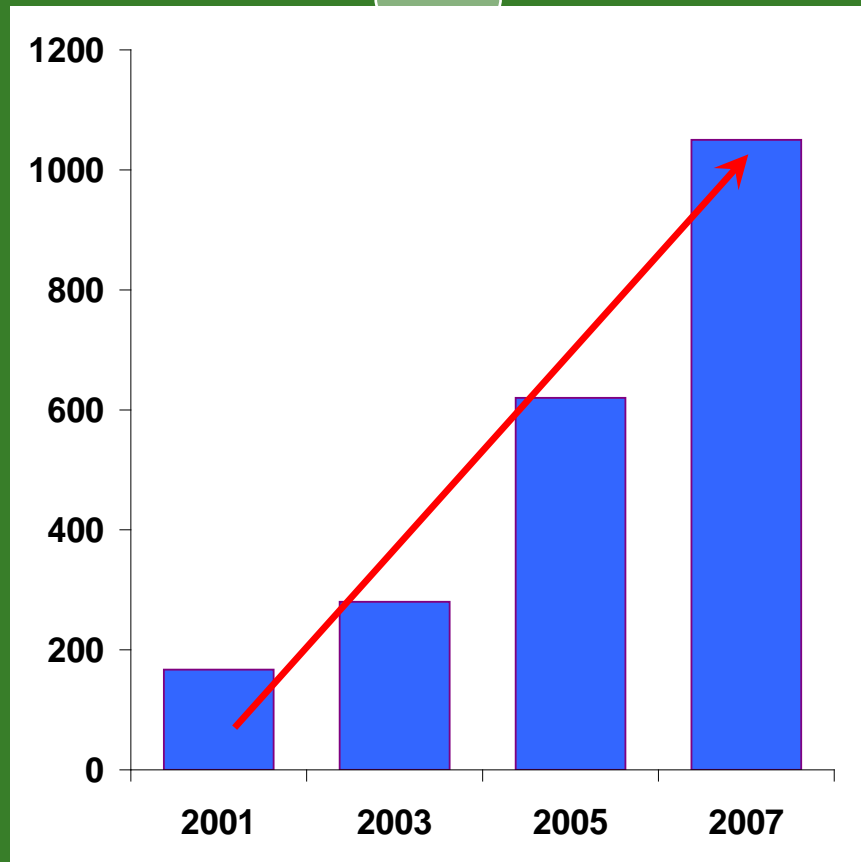
How much?

'Enhanced' Index
Active Quant



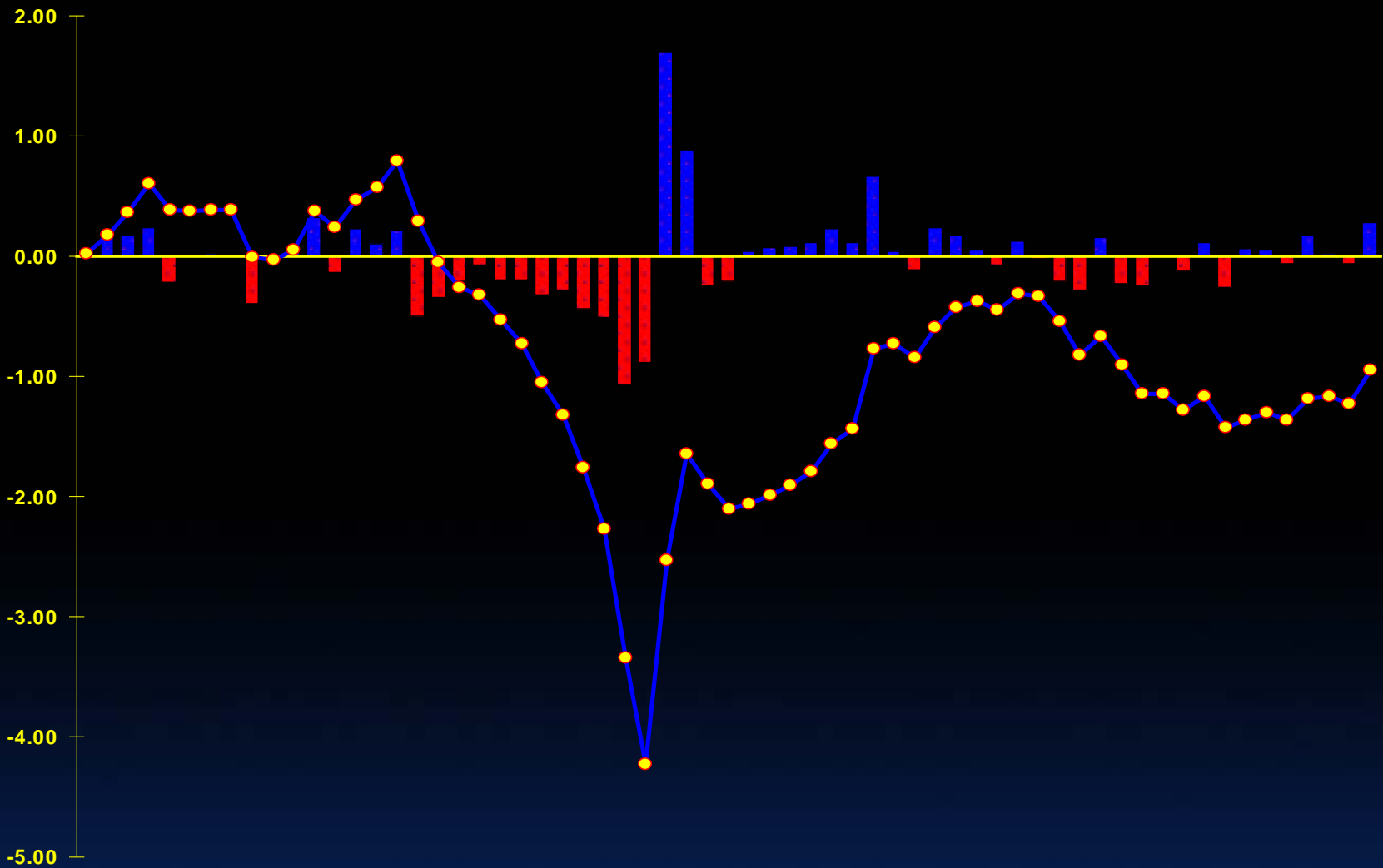
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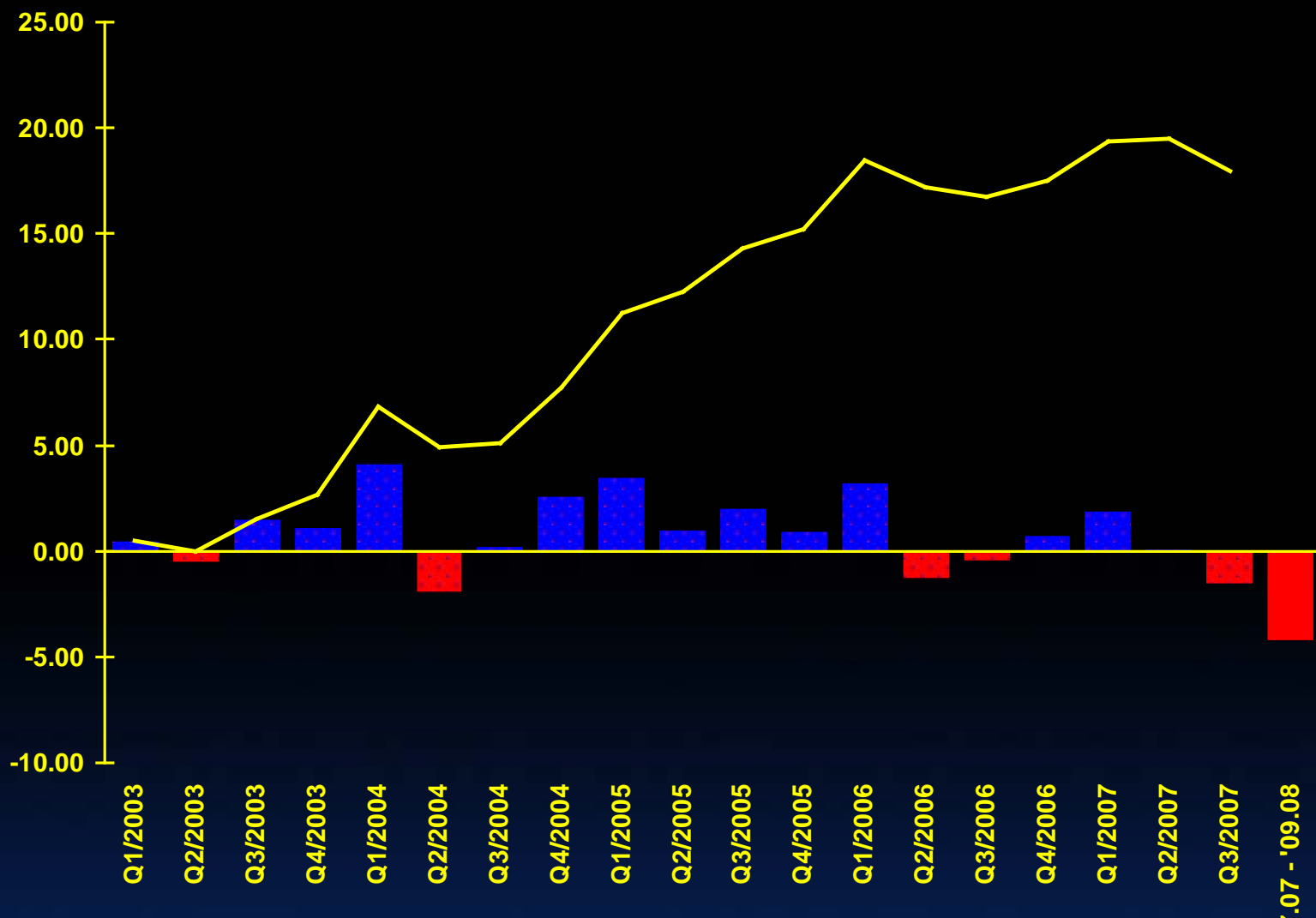
- Transparency
- Hedge Funds
- Leverage
- Q/F Hybrid

The Quantmare *

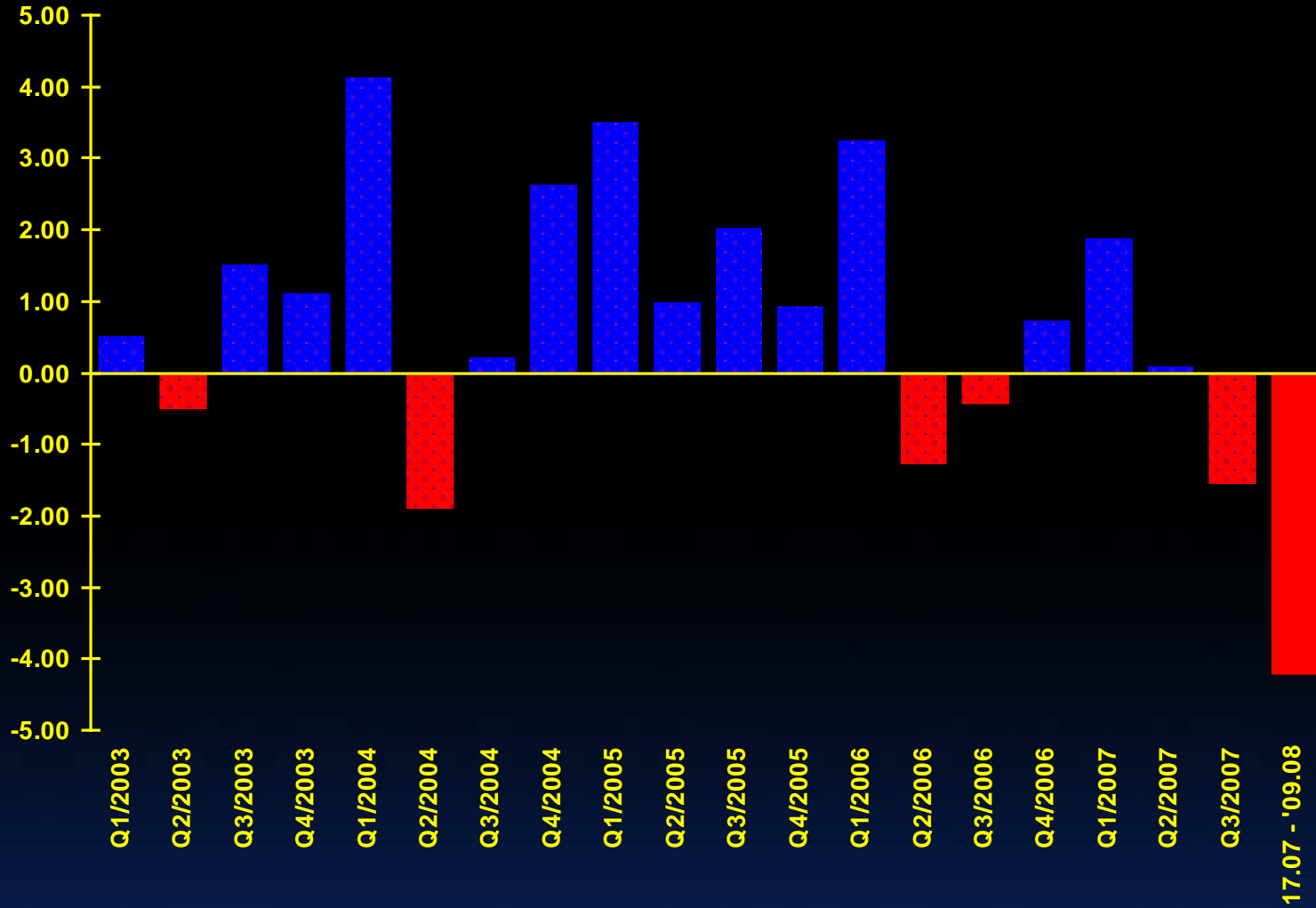


* thanks to Steve Satchell

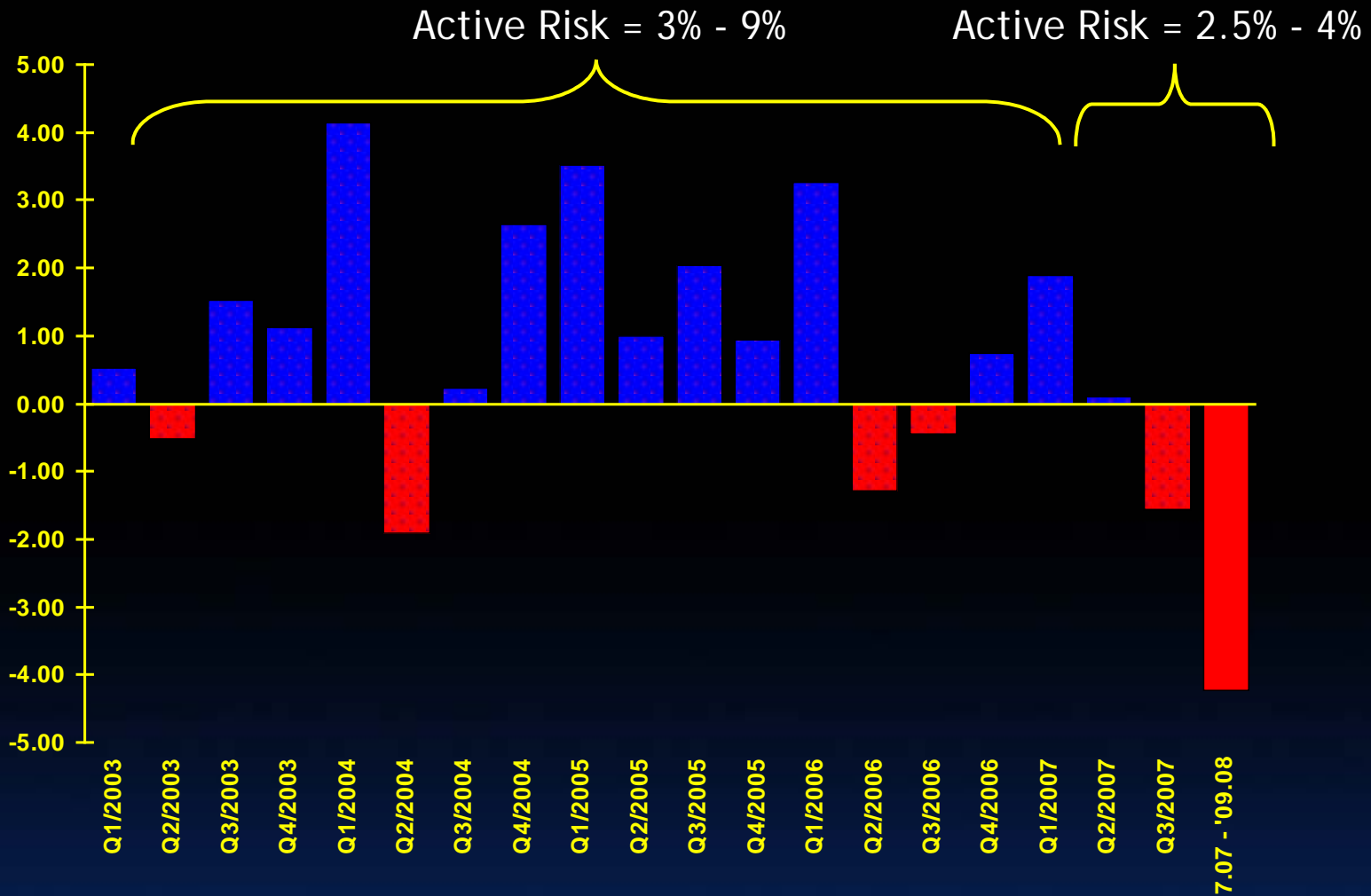
Quarterly Returns & 17.07.07 - 09.08.07



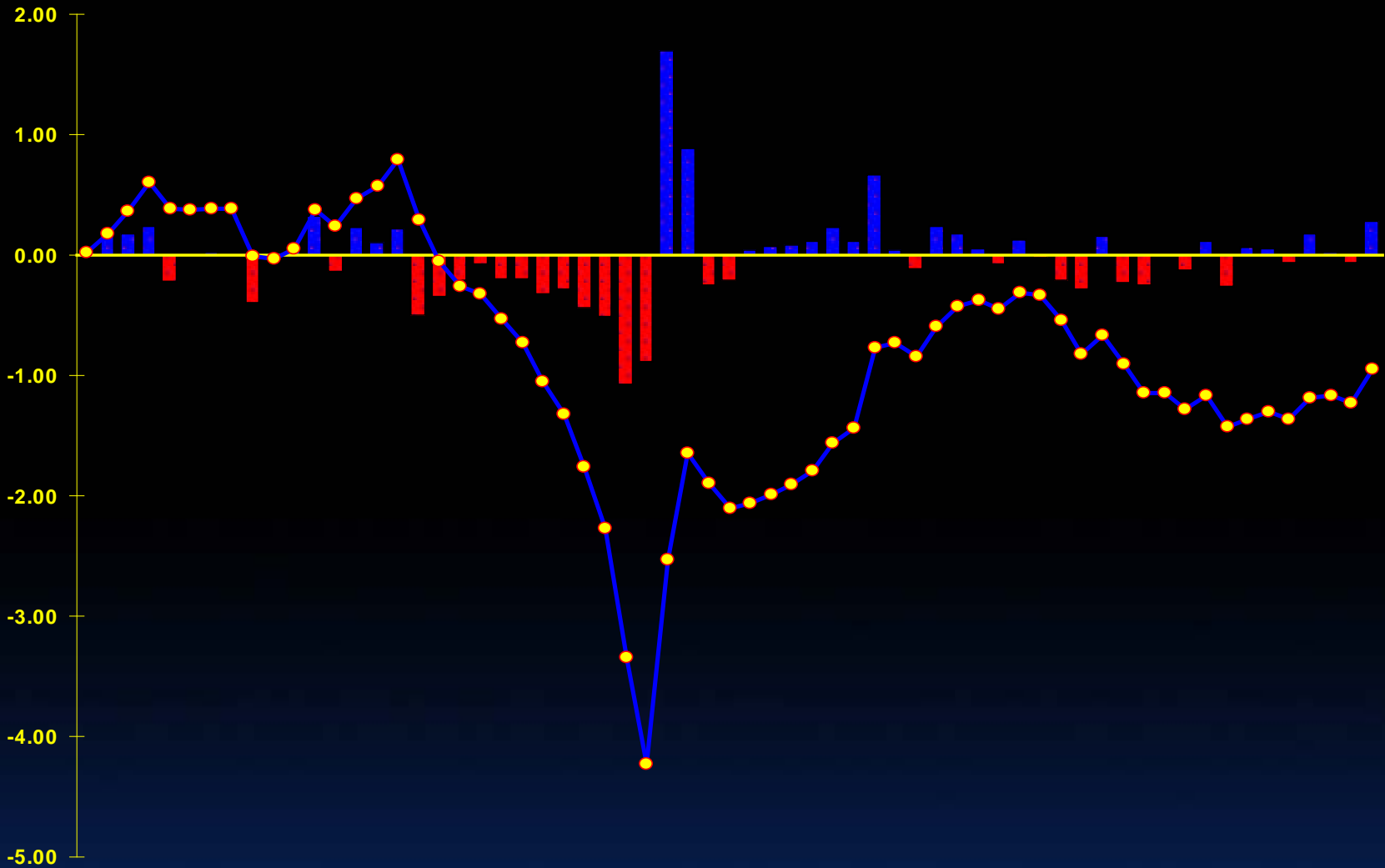
Quarterly Returns



Quarterly Returns / Time-Varying Risk



The Quantmare *



* thanks to Steve Satchell

S&P500 "Enhanced" Index Returns (to 31/03/09)

	1Y	3Y	5Y
HI	5.8	3.7	2.9
5th	4.2	2.6	2.3
25th	1.3	0.7	1.1
Median	0.3	0.1	0.3
75th	-1.1	-1.2	-0.4
95th	-9.6	-5.9	-3.4
Low	-16.2	-12.7	-8.4
N	72	70	64

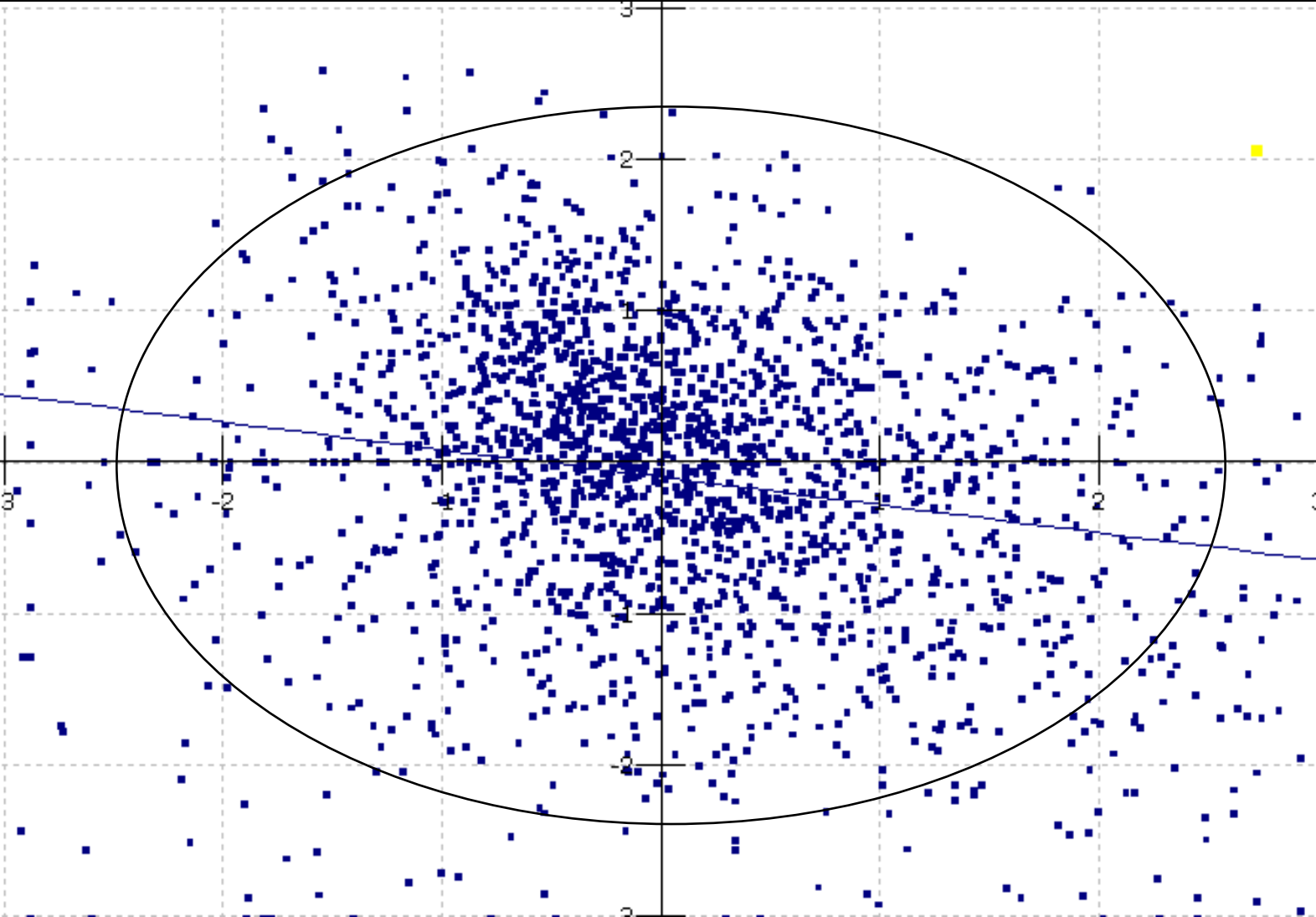
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New strategies?

- What new strategies?
- Massive r&d resources already aligned in this space
- Strategies aren't the same by chance!

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Maybe:

- Acknowledge alpha/depth trade-offs (!)
- Proprietary strategies
- New revenue models

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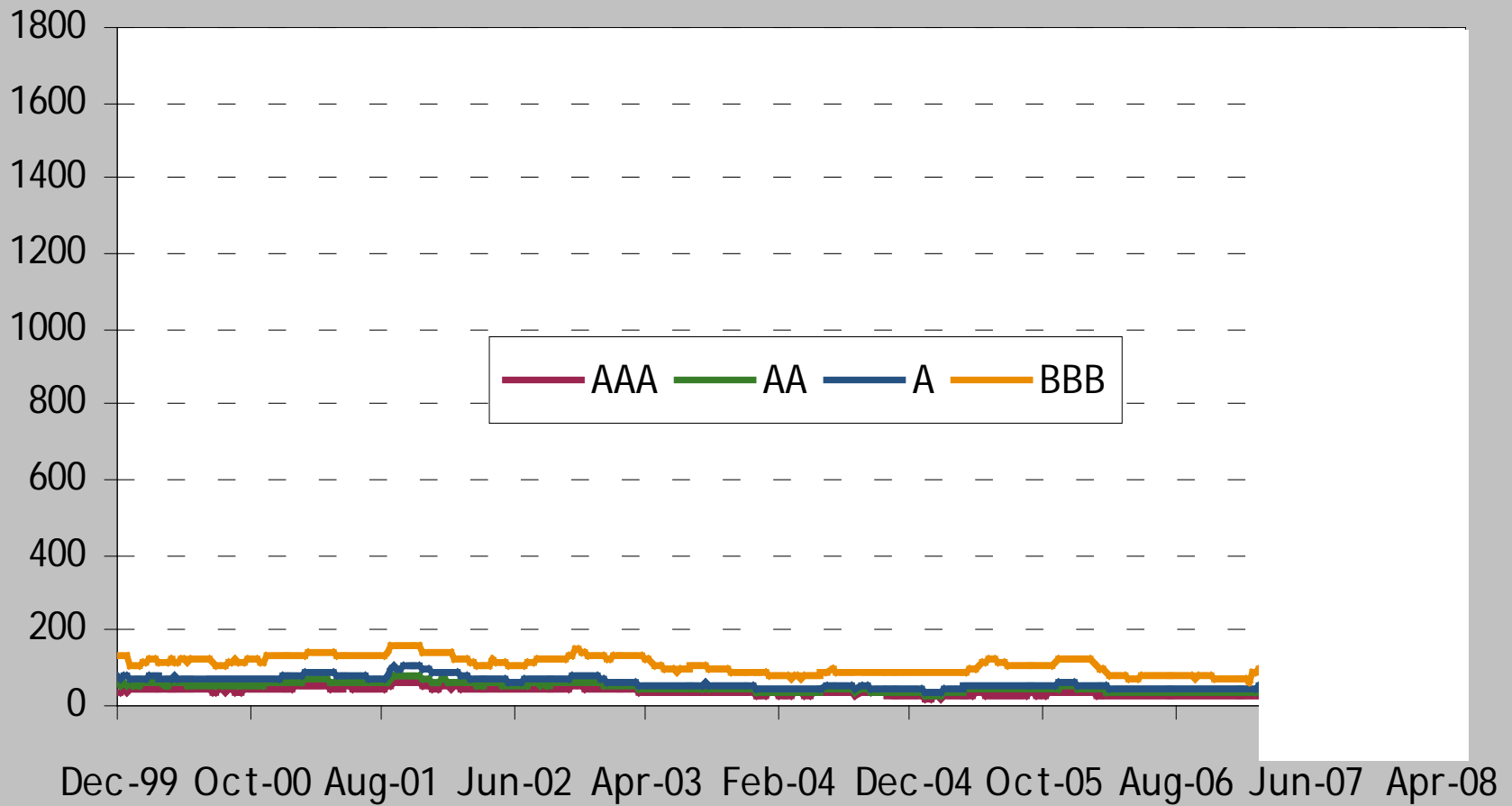
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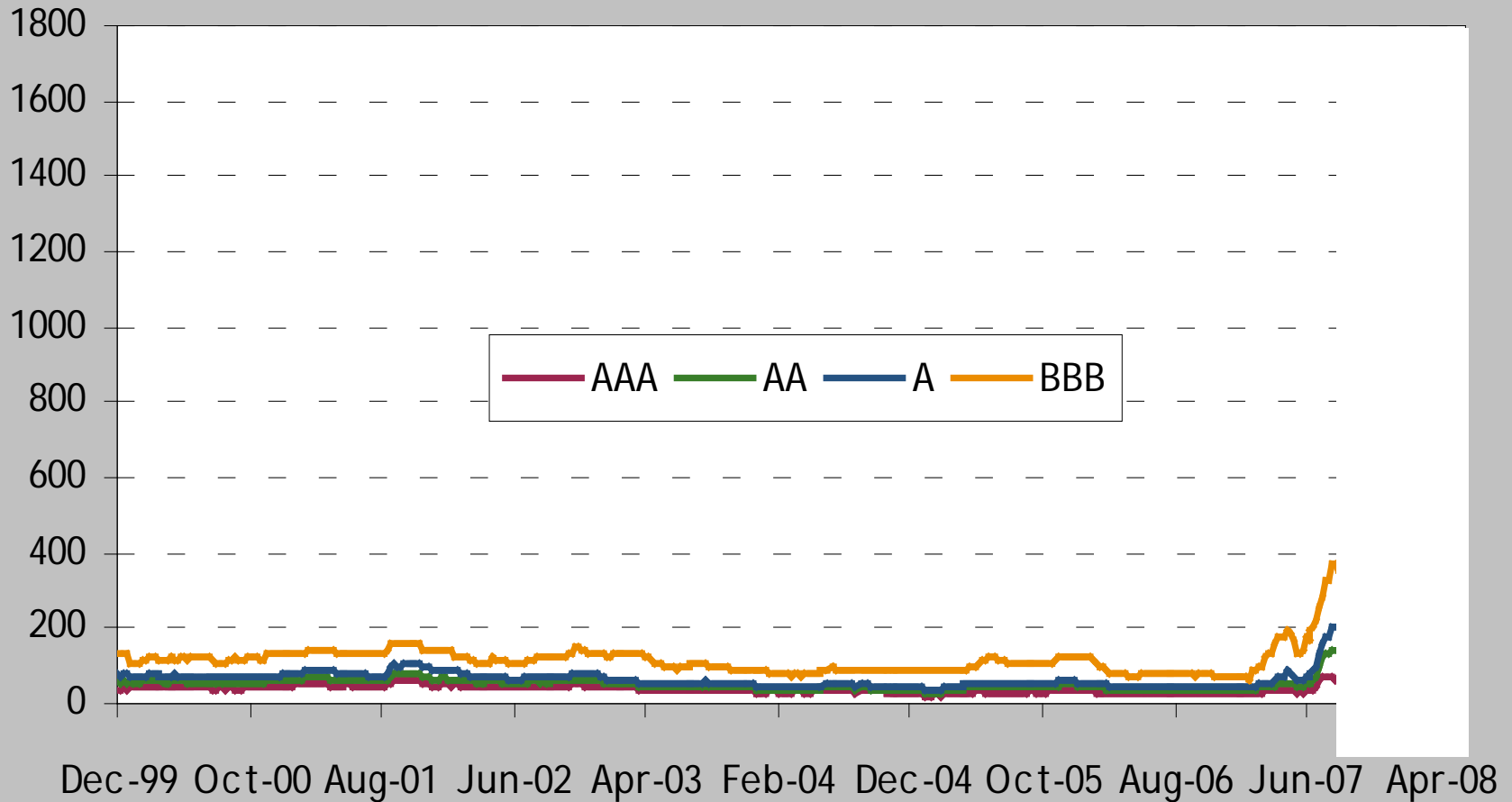
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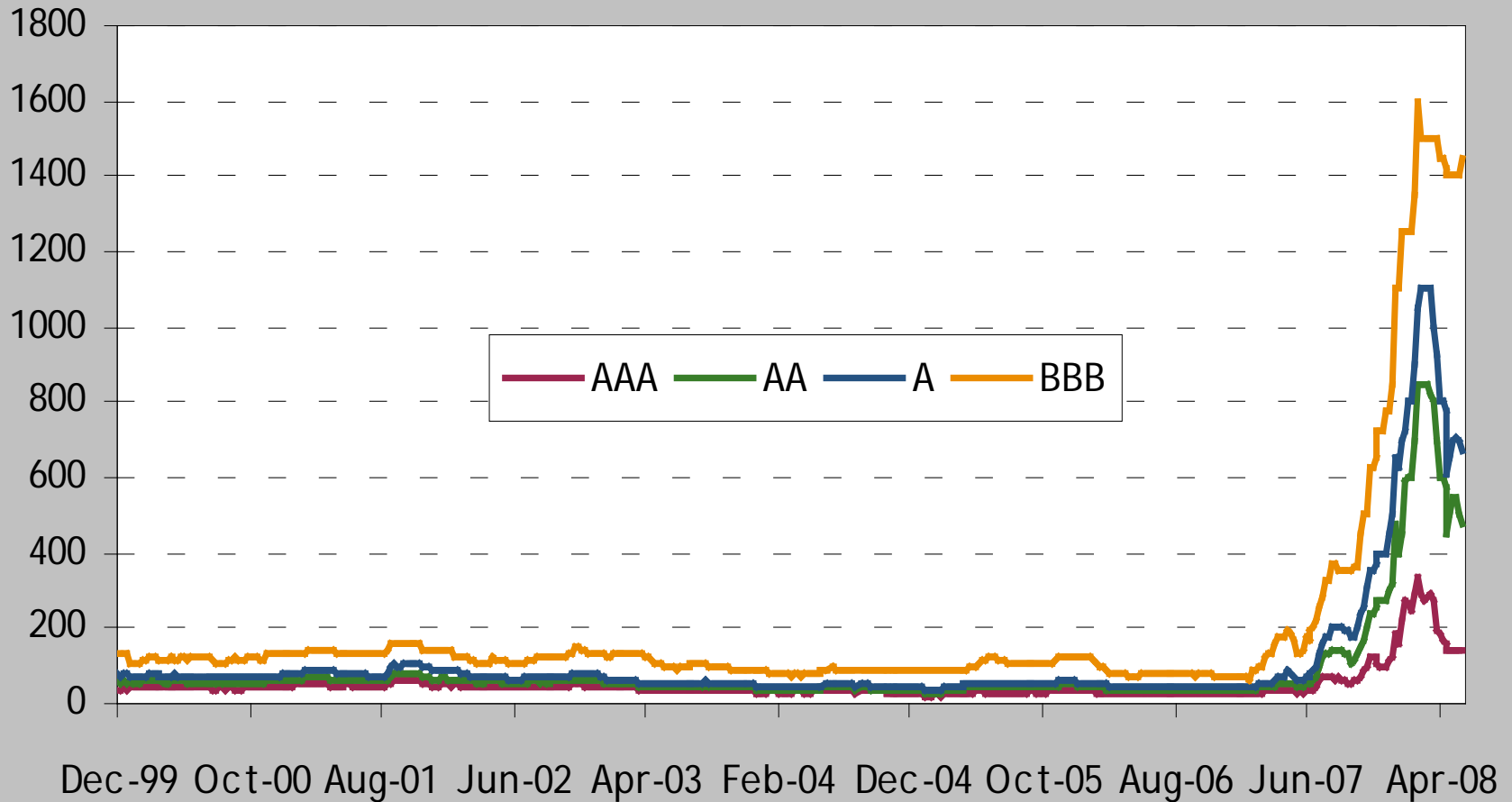
CMBS Spread to SWAPS (bps)



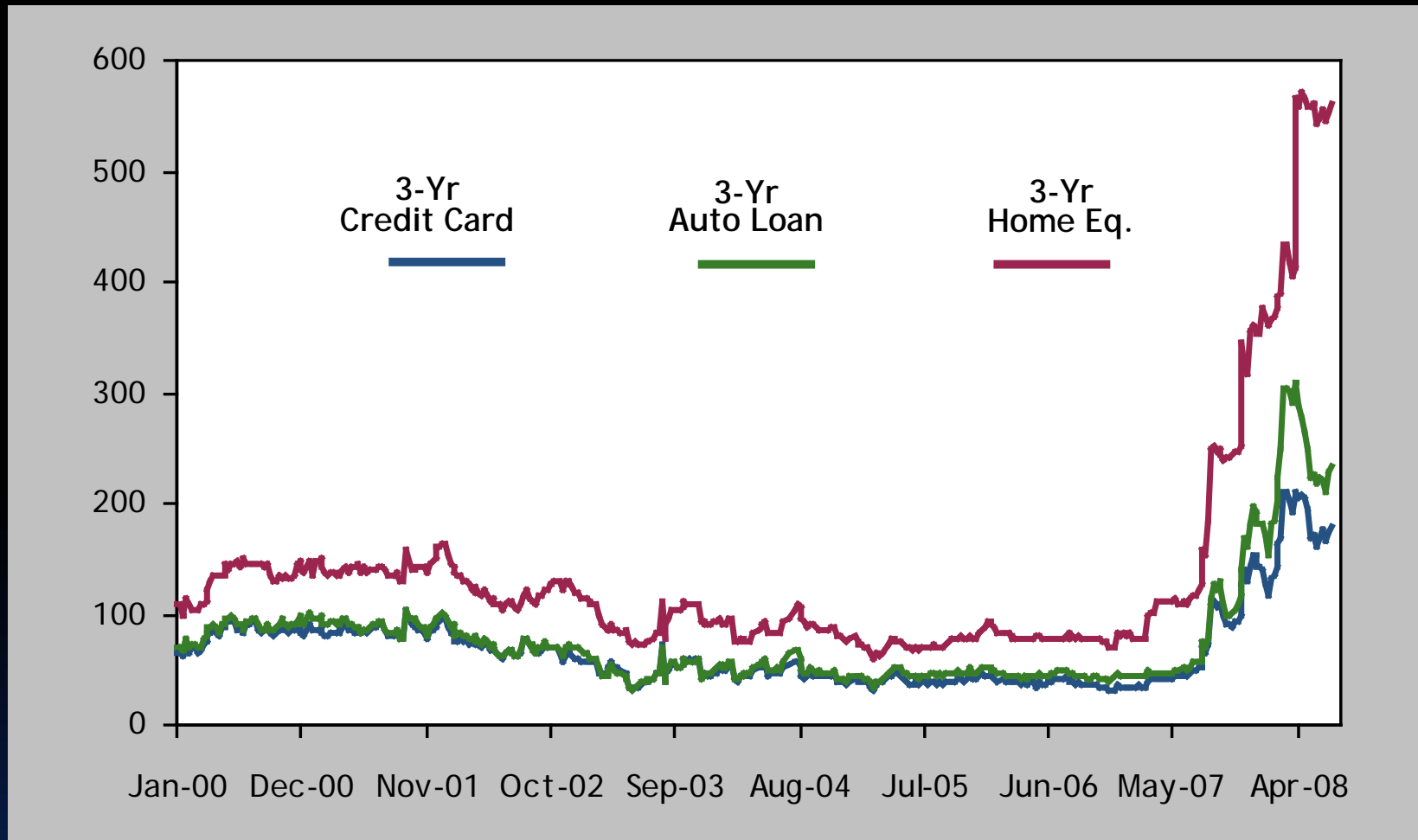
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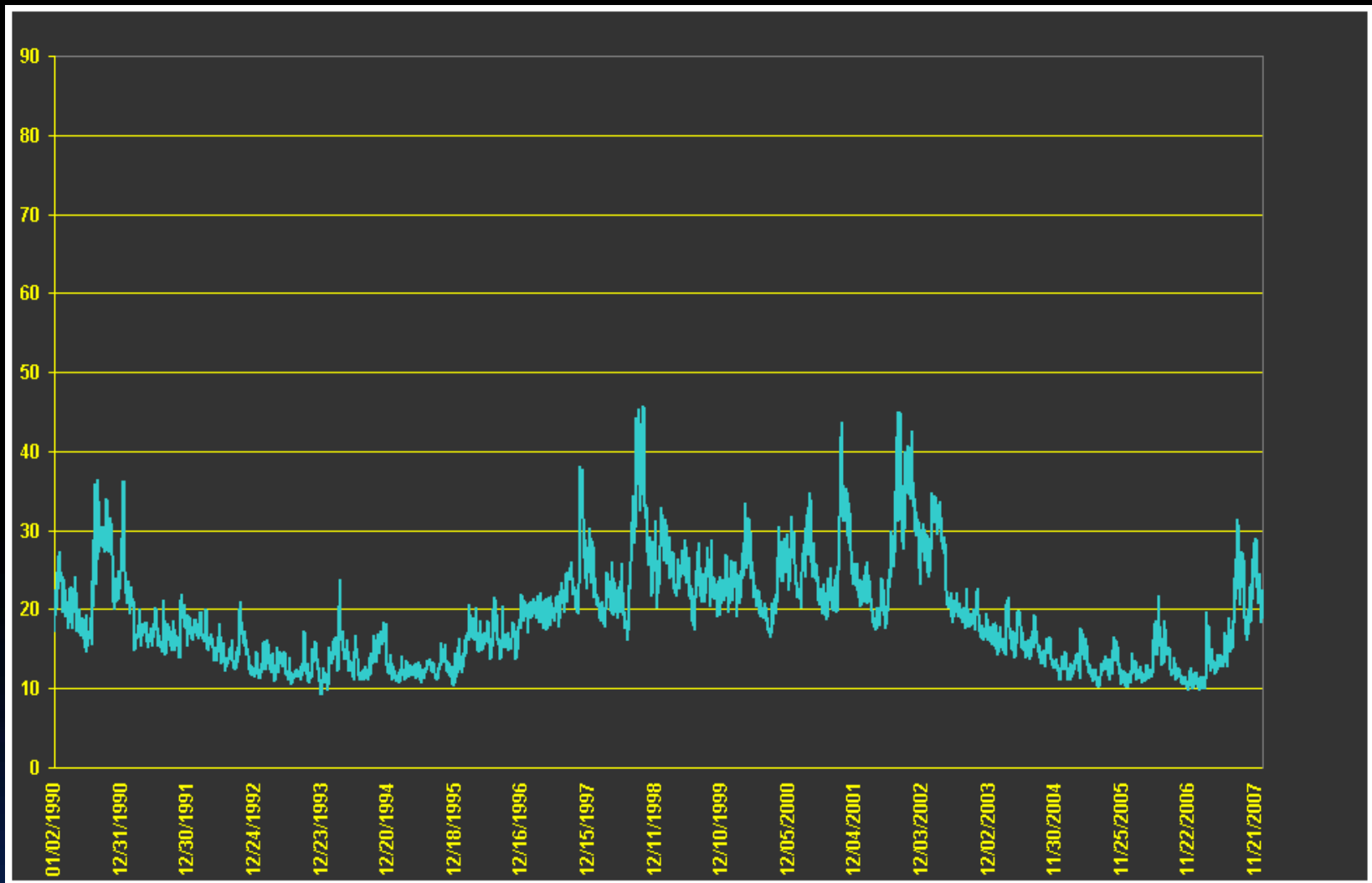
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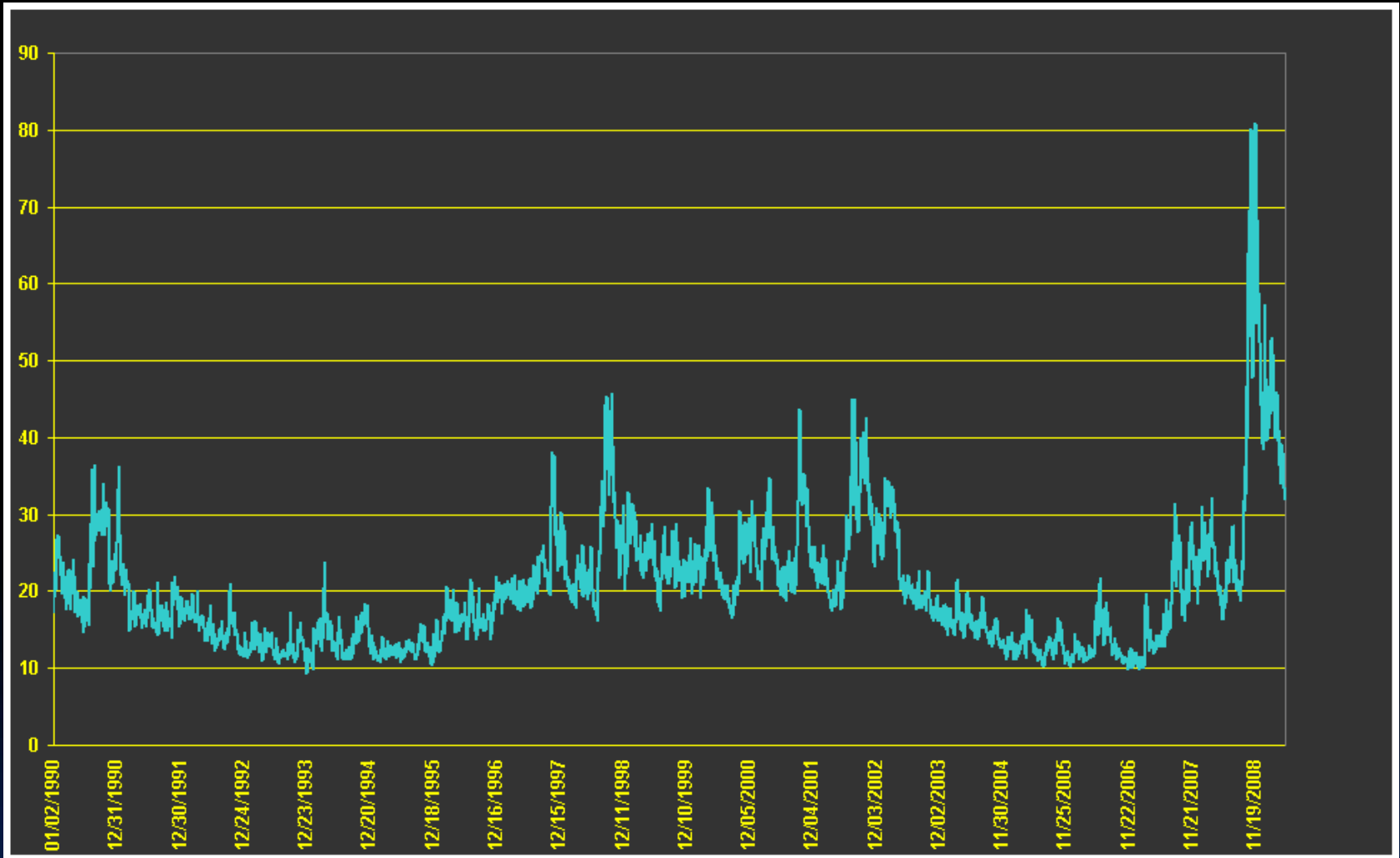
Spread to Treasuries of selected ABS sub-sectors



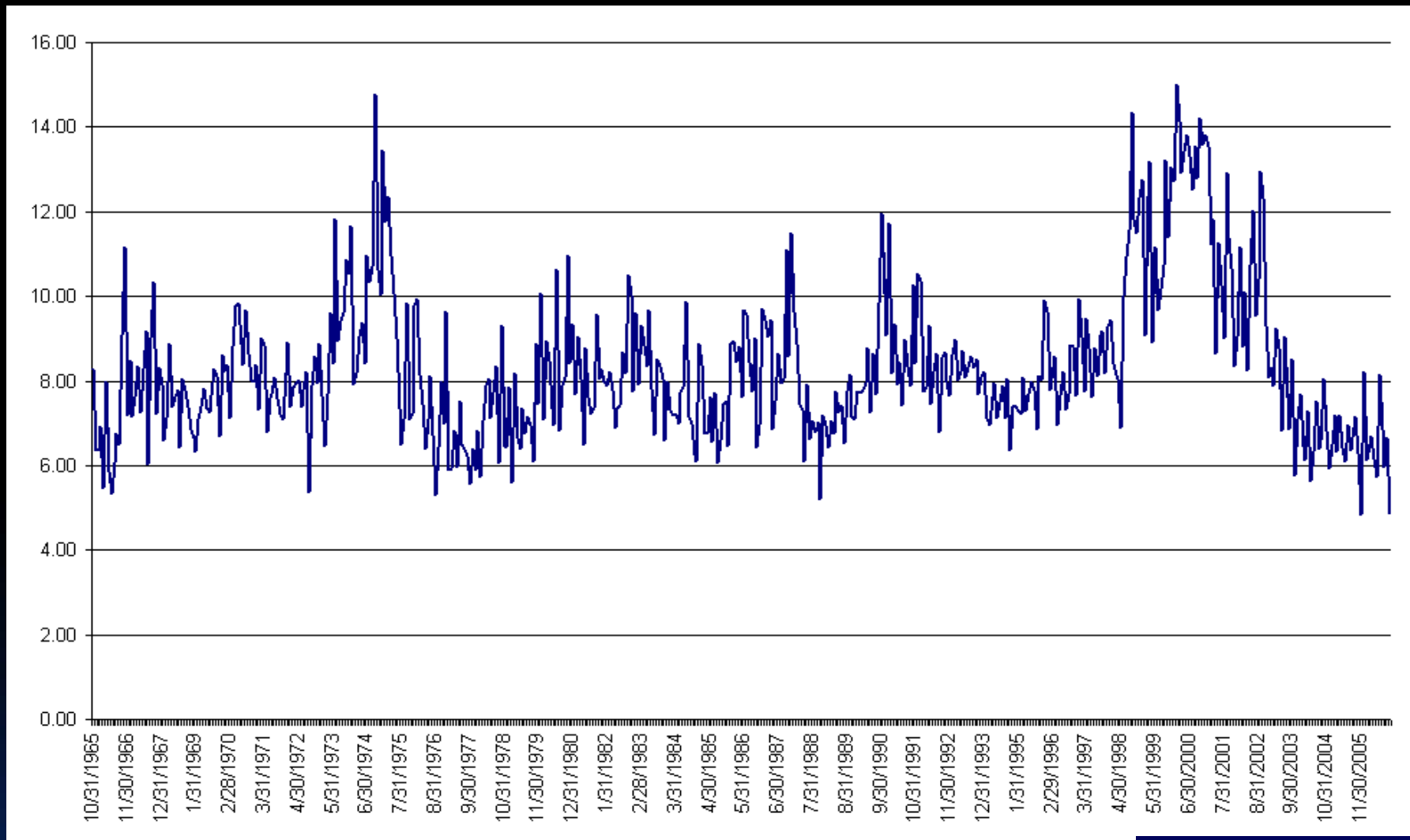
VIX



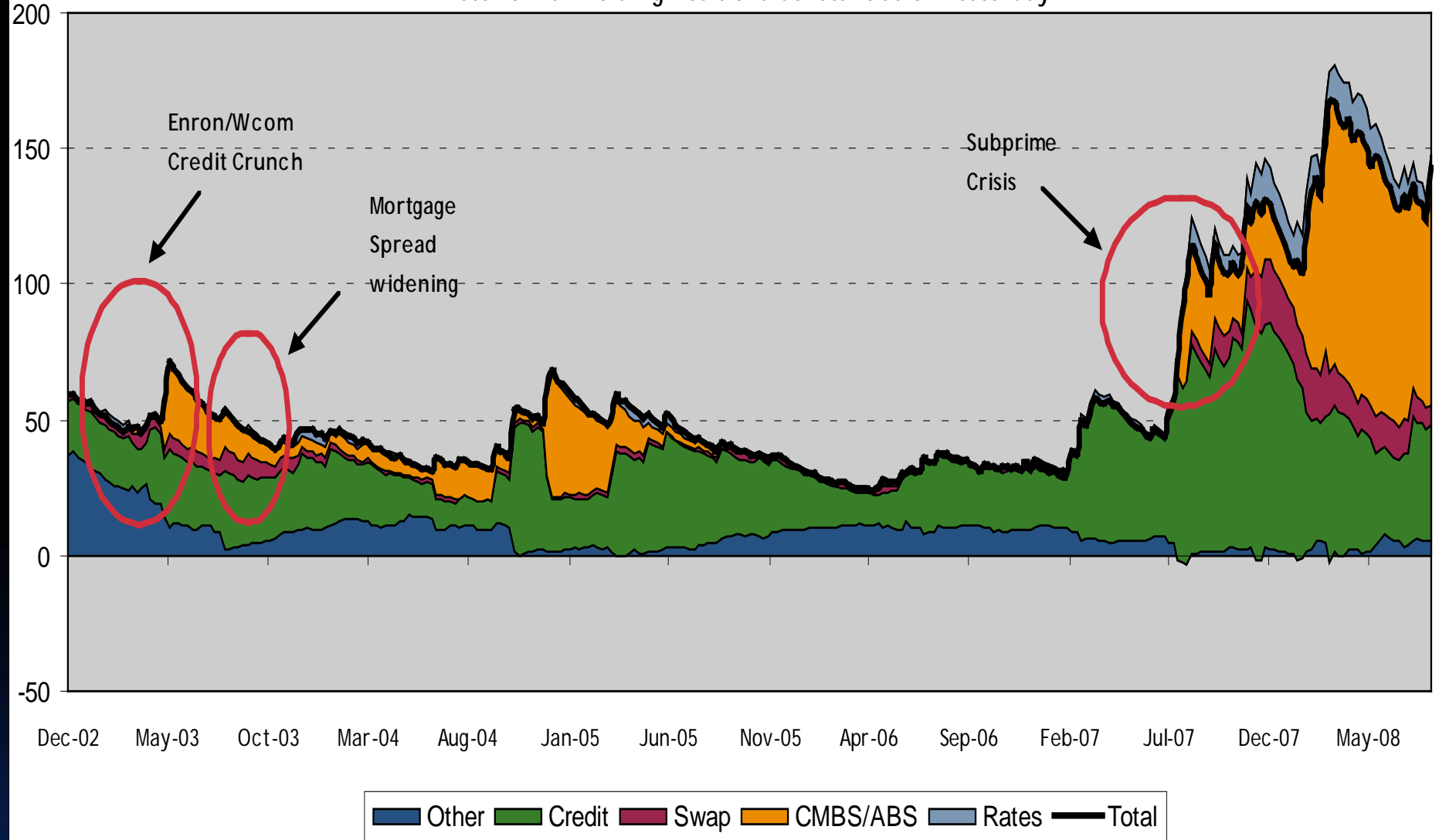
VIX



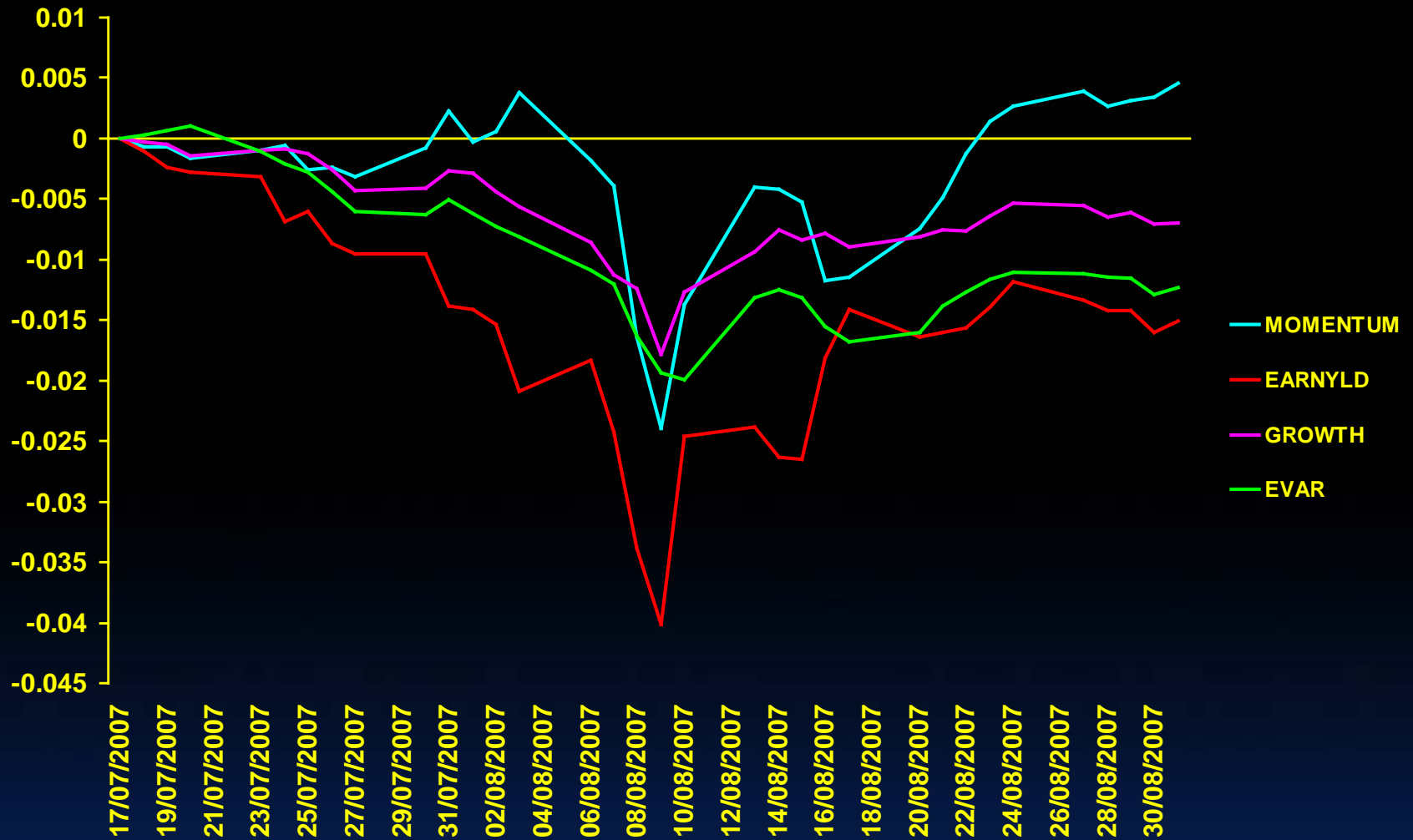
Cross-Sectional Volatility 1965 through 2006



Historic Risk Holding Positions Constant as of Yesterday

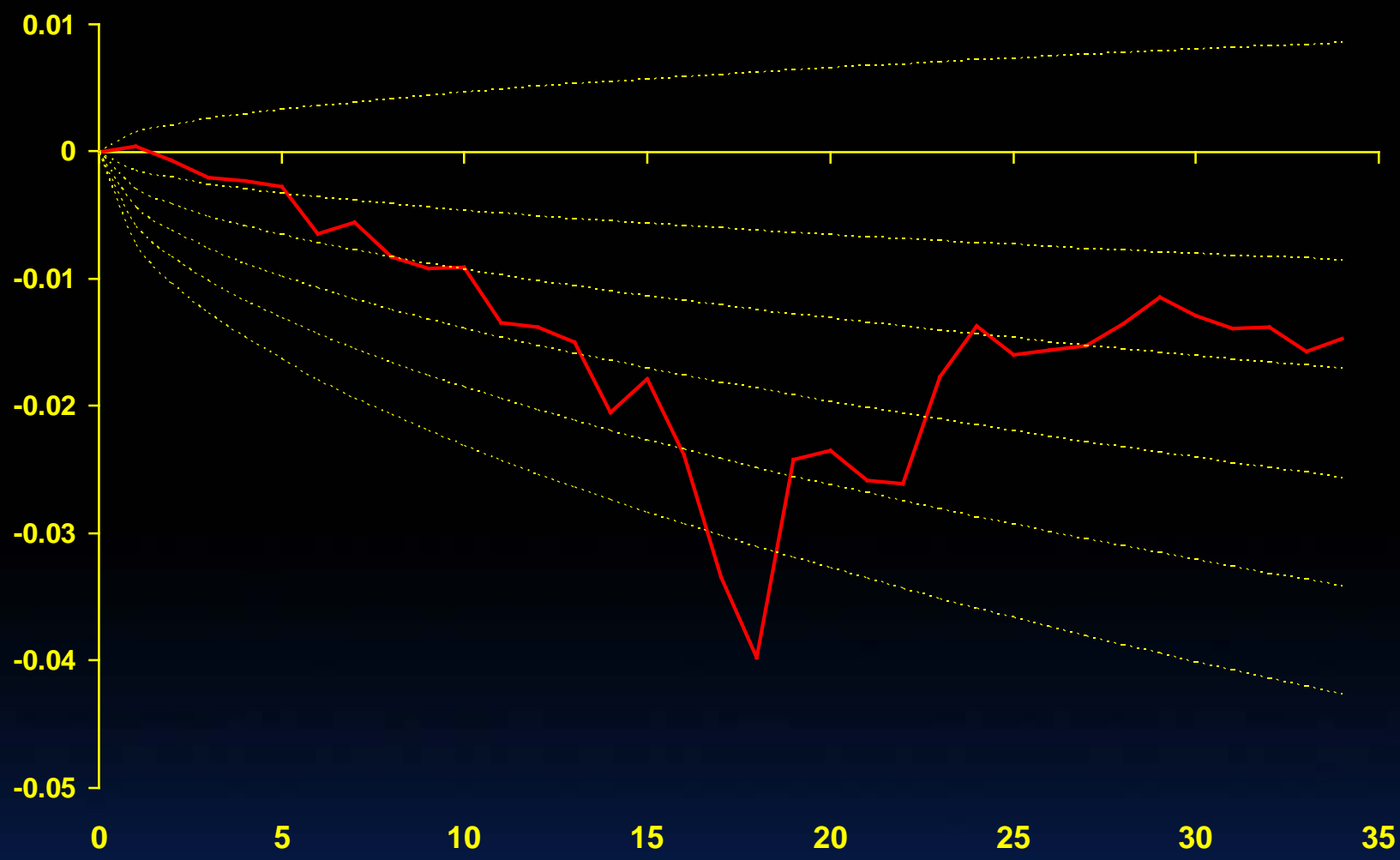


Factor / Style Returns - 17.07.07 - 30.08.07



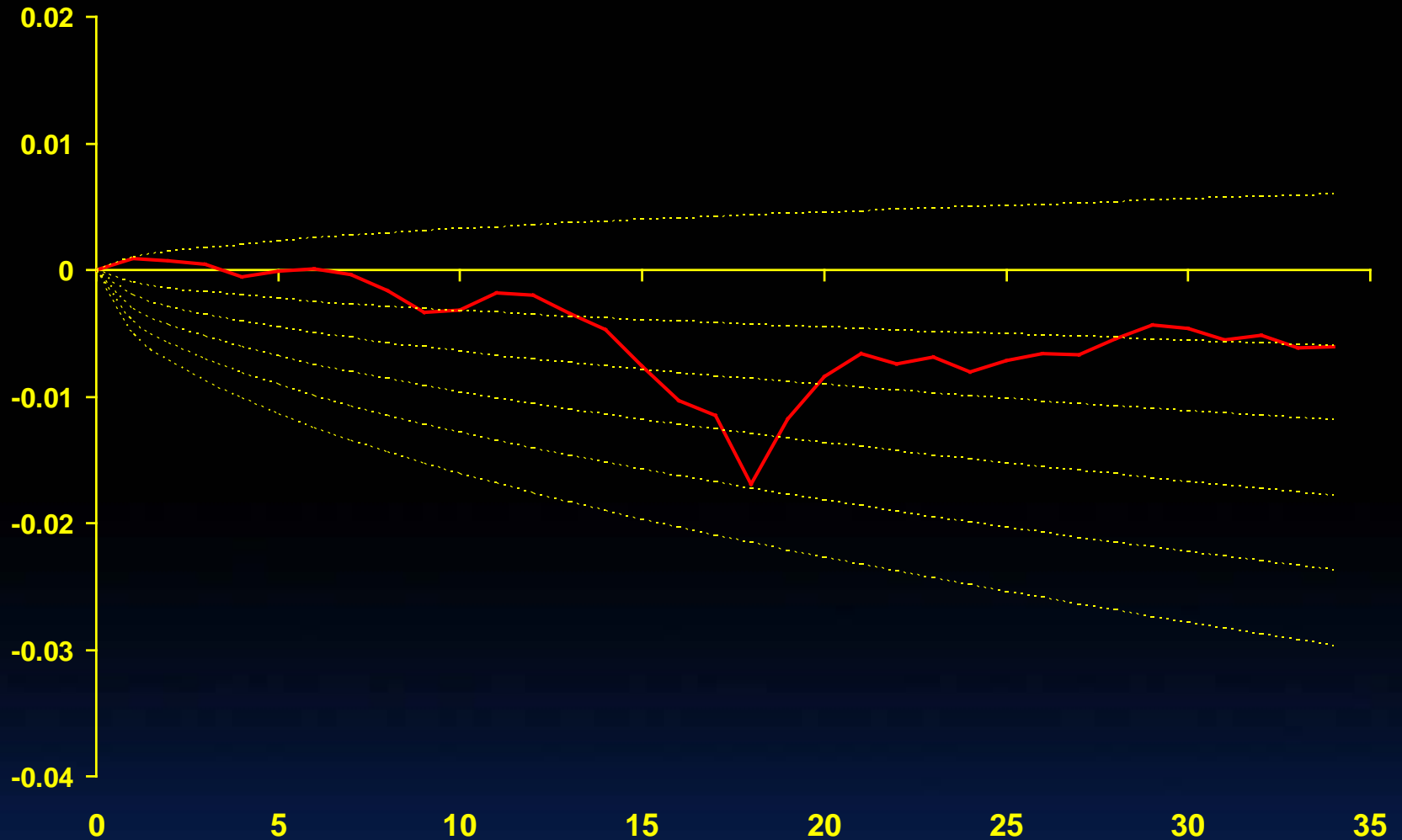
Source: BlackRock / Barra

Cumulative Returns Value (EP) - 17.07.07 - 30.08.07



Source: BlackRock / Barra

Cumulative Returns Growth - 17.07.07 - 30.08.07



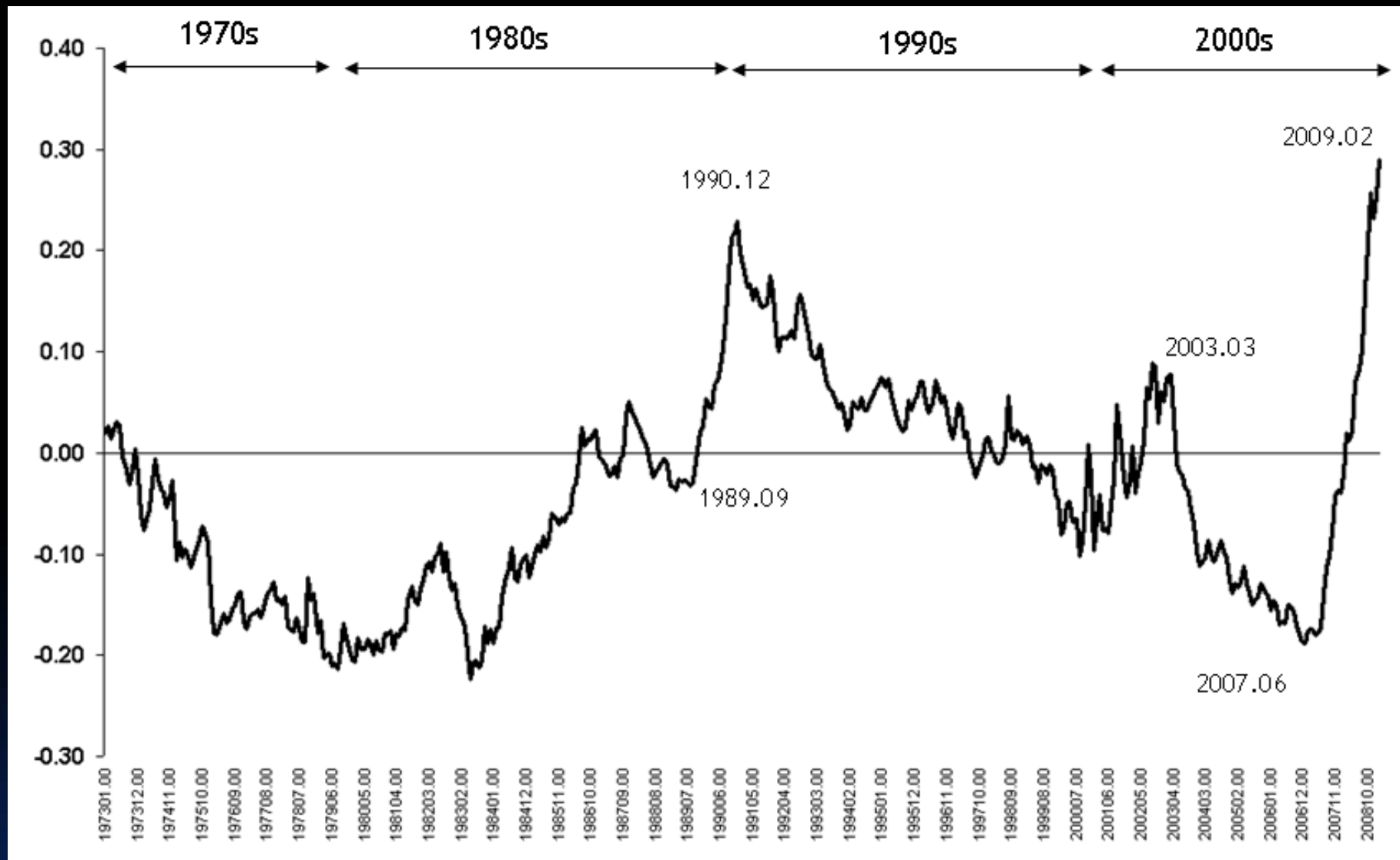
Source: BlackRock / Barra

Cumulative Returns EVAR - 17.07.07 - 30.08.07



Source: BlackRock / Barra

Regimes - "Quality"



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