



## Portfolio Construction

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### Systematic vs. Discretionary

3Q 2017

In this quarter's Alternative Thinking, we compare and contrast systematic and discretionary investment approaches. Despite differences, there are important commonalities: both can be fundamentally grounded, relying on similar economically intuitive inputs but in different ways. We discuss several other myths about systematic managers besides their supposed black-box nature. One such myth is that "they all do the same thing" whereas we show that the correlations between the active returns of individual systematic managers are very low, comparable to those between discretionary managers. We present empirical evidence of systematic and discretionary managers' performance and risk, arguing that neither group has been inherently better than the other one and that they can be excellent complements in investor portfolios.

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