Factor/Style Investing

We're Not Dead Yet

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Some argue that quantitative investing techniques cannot work in the uncharted waters of the quant crisis of 2008. We believe that's almost exactly backward. Yes, models cannot easily anticipate a subprime mortgage crisis — or the broader credit crisis we have now — or what the effects of such will be. But can nonquantitative managers? If so, we've missed the evidence.

We can't "prove" that quant investing has a future, but we can demonstrate that quant strategies have had a successful long-term past — and that their performance in tumultuous markets in 2008 was not inconsistent with that record. Going forward, we think tough times will reward — not punish — the discipline and diversification of quantitative investing and cause the biases they exploit to be more, not less, profitable.

It's not hard to see why people might think quantitative strategies are dead. Periods of poor performance, fears of overcrowding and unusual runups in equity markets could easily lead one to question the viability of these strategies. As we explain, we don't think most of these concerns hold water. But the good news is that they keep many people from investing in the strategies. And this brings us back to the question of how these strategies can earn a return if everyone knows about them.

Quant strategies work because they exploit fundamental, deep-seated flaws in the way most investors make decisions. They don't make money every day, month, quarter or even year. But they do make money over the medium to long term, thanks in no small part to all those investors who think quantitative investing is dead.

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