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Conference Notes: Chicago Quantitative Alliance Spring Conference 2012
April 18-19, 2012
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One of the most interesting presentations (and especially relevant to SGA) was "Investment Style Dynamics: What Causes Fluctuations in Valuation and Momentum Style Performance," presented by Jack Brush, founder and president of Columbine Capital Services. The two main findings were: 1) value and momentum strategies both tend to work over time with low correlation to each other, and 2) there is no way to effectively and consistently forecast value or momentum returns.

In his study, Brush used price to book (P/B) to measure value and 11-month trailing return to measure momentum using data going from 1926 to 2011, and measured returns of the top decile minus the bottom decile by these two factors. For this 85-year time period, he found that both value and momentum were effective in predicting future returns, on average, and that the value and momentum returns had negative correlation (-51%), meaning that they tended to work well at different times. Combining the two made an even stronger, more stable model. In this study, the returns to both value and momentum had occasional high volatility, and returns became volatile when there was economic/financial turmoil such as the 1930s Great Depression, the "Nifty Fifty" bubble in 1975, the tech bubble of 2000 and the recent credit crisis.

Despite considerable effort and examining the problem in many different ways, the second finding resulted in no reliable way to predict in advance when value or momentum would perform well or poorly. Methods such as using recent performance of value or momentum to predict future returns, using factor "spreads" (i.e. is there a historically large difference between the highest and lowest P/B stocks) and other methods were tested without significant results. Combining value and momentum using both the simple model back to 1926 and a more complex model for the past 15 years, and using fixed factor weights was the most effective strategy found. At SGA, we use fixed factor weights in our Alpha model across four groups: Valuation, Growth, Sentiment, and Quality, taking a fairly long-term view (and holding period) of stocks.

Vijay Chopra from Roosevelt Investments spoke on the topic of "Investing in Frontier Markets (the New Emerging Markets)" and his premise is that Frontier Markets are today what Emerging Markets were 20 years ago. The parallels of Emerging Markets of the past to Frontier Markets currently are quite evident. In 1998, Emerging Markets made up about 1% of world market cap, and now Frontier Markets are 1% of world market cap (currently $230 billion). Frontier markets are composed of 22% of world population but only 6% of world GDP. Frontier markets free float is fairly small, liquidity is low and market cap to GDP is low, meaning there are a lot of privately held companies which have not yet gone public. The case for significant opportunities in Frontier Markets was made clear but investors need a very long term perspective as there are inevitably many

bumps along the road and the lack of liquidity can make investing difficult, especially early in market development. Over the past 20 years, emerging markets have performed well relative to developed markets, but with periods of extreme volatility, where timing can be hazardous.

The Chicago Quantitative Alliance (CQA) is an investment management industry organization whose members are primarily quantitative portfolio managers and analysts who are predominately from buy-side institutional firms. The remainder of members consists of plan sponsors, sell-side quantitative strategists, quantitative data and software providers, and academics. The group has 350 members, of which approximately 150 people were in attendance at the recent two-day conference. In addition to this Spring Conference, the CQA also has a two-day Fall Conference, several other smaller events and ad-hoc e-mail exchanges from members on questions primarily related to quantitative investing.