Neue Zürcher Zeitung

Systematic investment

Investment success - fundamentally inexplicable, but achievable

In theory, the financial markets are generally regarded as very efficient. In practice, often even the opposite is true. To achieve some "Factor-Funds" hardly explainable excess returns.

by **Christof Leisinger** | 02/18/2016 16:02

The investment has sometimes something esoteric in itself. This is particularly true when investment professionals explain quantitatively oriented analyst in the financial sector have discovered investment strategies that achieved superior long-term returns with relatively low risks.

Different results

Although the phenomenon is not fundamentally could agree to such strategies always put on through - first mainly in the Anglo-Saxon world and the future possibly also in Switzerland, it is said.

The decisive magic words in this context are called "Factor" or "smart beta Investing". This means that the investor does not concentrate in the compilation of its securities portfolio to the optimal distribution of funds to different asset classes such as stocks, bonds, commodities, real estate or cash, but be based on so-called factors. These are academic-scientifically determined characteristics that explain the longer-term performance and the risks of various investment groups on econometric empirical basis. A logical connection to economic equilibrium models has not been possible to produce. Who was capable of, have deserved the Nobel Prize In Economics, it is said.

Apart from the lack of fundamental observations, the statistical work of various professionals have conducted in this area to very different results. While Campbell R. Harvey and Yan Liu want to have spotted from Duke University in North Carolina and from Texas A & M University in a paper entitled "Lucky Factors" up to 316 factors that may lead to an above-average portfolio return, show significance tests, that in practice apparently only a few are really important. The "pregnant with meaning" in force as include macroeconomic and financial characteristic quantities such as price to book value ratio, the momentum, the consumption of durable consumer goods, the short-term volatility and the derived from the capital asset pricing model Beta of the stock market. A few other factors appear to be of limited relevance - and the rest has probably no meaning.

If one believes Professor Stephen M. Schaefer from the London Business School, so those factors used in practice are of particular interest, which led to above-average returns on risk, at least in the past-related recalculation. In this he includes investment strategies that play considering fundamental criteria expensive shares against favorable, the position papers of small and medium-sized companies against those of giant corporations and the purchase "good progress" shares and simultaneously selling "poorly performing" empty. Combined to such strategies with a simple index funds, so would the "Momentum Portfolio" above average cut. However, a glance at the notional value that investors suffered huge losses value in choosing this strategy in stock market correction phases had (see chart) - at least temporarily.

Until now, no one can conclusively explain why such investment techniques over the years were away successfully and should be in the future. After all, in theory, the financial markets are considered so efficient that briefly achievable benefits would be gone in no time. As arbitrary cited reasons are, inter alia, that passive investment forms have a certain charm and that the consequences of psychological elements became noticeable. Thus man for the "sex" of his imagination infinitely growing, disruptive company of the caliber was Tesla's receptive than for the charm of a force as a boring company with very attractive valuations; and if the trend of a security once impressively show up whose overvaluation'll just disappear.

Success is not guaranteed

Anyway, there was no guarantee that econometrically identified factors of the type mentioned led to consistent excess returns in any market environment. There were phases in which a well-functioning, and others in which the no longer the case. Basically, show the very different performance of Factor-Funds that their success was not self-evident. Investigations of Huia and Van Gelderen provide nevertheless notes that the recoverable excess returns were robust, and they make a positive correlation between the number unrecognized factors and the investment performance ago.

Innovations in crypto currencies

Looking for the "killer app"

Bitcoin enthusiasts want to conquer the world of business and finance with technological innovations.

by **Christof Leisinger** | 06/07/2015, 05:30

Drift down in hopes of E-Mobility

Deep down Tesla title

The title of the electric car manufacturer Tesla lost in six months one third of the value.

by **Michael Shepherd** | 02/09/2016, 07:00

---

crypto currencies

Bitcoin tale without a happy ending?

The crypto currency Bitcoin is always good for headlines.

by **Christof Leisinger** | 01/29/2016, 05:30
