The pace of technological change and advances in machine learning and quantitative methods will result in a “shake out” in investment management according to Campbell Harvey, Professor of Finance at Duke University.

Harvey, who is well respected for his extensive research work on factors, says that even discretionary managers can not deal with the amount of data now available and need to use machine learning to help inform their decision making.

“The future of finance will be much more quantitative than it is today. We are moving much more in that direction whether it is systematic or discretionary trading, machine learning is here to stay,” he said in a podcast conversation with Michael Kollo [see below].

“However there’s a big spread in the competence in terms of applying it. These small firms running machine learning, will be defeated by firms which have been around for at least five years which have PhDs in mathematics, statistics, and machine learning and know the best way to process and do validation. They are the firms that will win.”
one appeared to work and 19 didn't, that's no big deal, that's what you would expect purely by luck. it's got nothing to do with the factor being true... declaring a factor to be a real factor with a two standard deviation confidence is just false.

[he previously received the Bernstein Fabozzi/Jacobs Levy Award for Best Article from the Journal of Portfolio Management for his research on distinguishing luck from skill.]

but this problem is not just about factor research, according to the canadian, but extends to empirical research in finance. and much of it stems from the structures of academic finance as an industry and the importance of publication for academics.

“to get published in a top journal you have to have a good idea, and it's almost always the case the result is significant. journal editors are not enthusiastic about publishing non-results, because they don't get cited and it doesn't advance the journal's profile,” he says.

in addition an academic in one of the top universities who is published in a top journal can look forward to a job for life, a reward system harvey says leads to data mining.

“This leads to a massive data mining exercise where many things are tried until something works in the sample, you spin a story around it, and it gets published. many years later it might be found not to hold up out of sample, but you're already done because you already have tenure. academically the incentive is to publish at whatever cost. it's not like you're falsifying or fabricating... but it is basic data mined result.”
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The new chief executive and president of the CFA Institute, Marg Franklin, completed her first 100 days in the job last week and already she's made an impact. Amanda White spoke to her about the organisation's influence in the decade ahead.

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