

Analytical Methods



Quantitative methods go only as far as the education, experience and common sense that guide them.

His theory of portfolio choice won Harry Markowitz a share in the 1990 Nobel Prize in Economic Sciences. He shared his prize with William Sharpe and Merton Miller and today the modern financial analyst implements all of their theories on a regular basis.

Thousands of advisors now have access to a plethora of tools built upon the tenets of these and other financial scientists. The possibilities for abuse of these tools scare us. Consider the number of people who die each year from improperly prescribed medication (it's the 4th to 6th leading cause of death in the US). Now consider the black box output many investment advisors tout as quality analytics.

At ASI we employ the most sophisticated quantitative tools available but we apply them with a healthy dose of common sense and all the training and experience we can get. It's not enough to look at the numbers, we have to know what's behind them.

Portfolio construction relies on many intimate variables that you, the client, express. But when it finally comes down to the numbers we utilize mean-variance optimization. To some that's a black box, to us it is the most sophisticated quantitative system we can find to help balance the choices of risk and return. You deserve to get the most for every bit of risk you take so we do our best to measure and apply appropriate standards. Most of our clients aren't interested in the math but we are. We know that math will help increase the odds of success. And give us the tools to measure that success. As far as the specifics go, feel free to ask us about our analytical systems. We have seen them all and we have invested in the best.

When it comes to analyzing the skill and value of investment managers or products it takes a lot of experience to read between the lines. If you take their word for it every manager out there is worth their fee. But we know better and we can prove it. Returns based analysis, holdings based analysis, style analysis, attribution analysis, market capture, regression, peer group analysis, benchmark fits, custom benchmarking, asset/liability studies, the list of quantitative variables goes on and on. We look at as many as we need to but we don't stop there.

Analyzing a money manager's numbers is only the beginning. The qualitative factors behind the numbers are often even more important because they will change before the numbers do. ASI's experience in the money management and mutual fund business give us a unique insight into the qualitative factors that help bring about success. (Ask us about the lifecycle of a mutual fund sometime.) ASI extensively interviews all the managers we recommend and performs site visits with most of them. We want to know everything about them, from who the owners are to how the managers get paid, how long the contracts are, who created their process and who understands it the best. And we keep our ear to the ground, ever vigilant to catch wind of the coming changes so we can move before the rest of the investors.

At ASI we make an art out of applying financial science.