

Building a Quantitative Investment Portfolio



If there's one essential skill that your portfolio management firms need, it's the ability to put together and follow a strong quantitative investment strategy. When portfolio management firms can use data to create disciplined quantitative investment strategies, they're able to optimize results that aim to match the level of risk to each investor's tolerance for risk. These strategies crunch the numbers to create models that are more likely to highlight securities that will result in a portfolio generating more return with less risk. When these models are made properly, they can reduce your portfolio's risk with the objective of optimizing your return on your investments and growing your money over a long period of time. As you're considering [portfolio management firms](#) to determine who is best for you, make sure you ask them about their quantitative investment strategy. See which of the following they mention:

Factor Investing

Factor Investing is another term for Quantitative Investing. With factor investing, stocks with one or more qualities that have previously resulted in outperformance are selected using models. These models usually analyze each stock based on these metrics and then award a final score to the stock.

Value Investing

Value investing involves selecting stocks that appear to be undervalued by the market. Value investors compare the trading price of a stock to its intrinsic value. They profit by purchasing stocks discounted as a result of market overreactions and then holding them until their market prices have risen closer to or above their intrinsic values. Value investing relies heavily on financial analysis to determine intrinsic value and value stocks tend to be long term investments.

Momentum Investing

Momentum investors favor investing in companies with characteristics such as price trends, earnings changes, and earnings estimates that are moving upward. Conversely, momentum investors lean towards selling stocks with characteristics such as these that are declining.. Momentum investing capitalizes on existing market trends.

Growth Investing

Growth investing is a strategy that involves investing in growth stocks, companies which are expected to increase their earnings at a rate above the average of their industry. Sometimes these companies may have little earnings history or may be relatively smaller or younger than some other publicly traded stocks. Thus, growth investing may pose a higher risk than some other options, but it can also provide impressive returns if the companies purchased are successful.

Dividend Investing

Dividend Investing involves investing in companies that pay dividends. Investors who follow this strategy favor companies that pay dividends with favorable qualities. For example, reasonably high dividends, measured by the dividend yield, the ratio of

dividends to price, are generally considered to be desirable. Another issue is the sustainability of the dividend. One ratio typically used to determine this is the Payout Ratio, which is the proportion of the company's earnings required to pay the dividends. Third, a company whose dividends have been increasing over a number of years generally is preferred to one whose dividends have been decreasing.

The Benefits

Because quant strategies rely on mathematical data generally they're considered to be immune to human error or emotion. This helps to facilitate optimizing the construction of customized investment solutions for clients. It's very difficult to entirely remove emotions from financial decisions. People are likely to want to believe that the stocks they like will do well and are less likely to believe that the stocks they dislike will do well. Furthermore, we're easily influenced by our past experiences. Just because a stock performed poorly 5 years ago doesn't mean that information is still relevant today. Quant-based investing removes that type of human error from the equation and lets your money take the most mathematically efficient path.

If you need help with your customized investment solutions, then you need to contact Enriched Investing Incorporated. Check out our website today to learn how we can help your money grow.

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