Jacobs Levy Equity Management Center
for Quantitative Financial Research

Spring 2016 Forum
May 20, 2016

Welcoming Remarks
Bruce Jacobs, Ph.D., Advisory Board Chair, Center Co-Founder

Thank you, Chris.

Good morning, and welcome to the 2016 Spring Forum of the Jacobs Levy Equity Management Center for Quantitative Financial Research. Ken Levy and I established the Center in 2011, in honor of our firm's 25th anniversary, in order to spur idea creation and innovation having a real impact on the practice of finance in the investment community.

When Ken and I started our firm 30 years ago, terms such as alpha and beta, as applied to investing, were rather esoteric and mostly confined to an emerging discipline known as quantitative finance. Today, you don't have to be a quant to know the difference between alpha and beta, or to have an opinion about whether one or the other is smart or dumb, active or passive, or something in between.

That is a good thing, I think, and an indication of the degree to which quantitative finance has made its way into the mainstream of modern investing. Our exceptional lineup of speakers today will demonstrate not only the ongoing power and relevance of some of the bedrock concepts of quantitative finance, but also their ability to evolve and adapt in the face of a relentlessly changing market.

First, John Guerard of McKinley Capital Management will discuss the benefits of robust regression techniques and Markowitz mean-variance optimization. His research reveals that these techniques, combined with data-mining correction tests, can produce portfolios that generate excess returns in global equity markets.

Next, Sam Hartzmark of the University of Chicago Booth School of Business will present some research from the discipline of behavioral finance, which continues to influence the practice of quantitative finance, and indeed all of finance. He will show that even sophisticated investors can fall victim to what behavioral theorists call cognitive errors. His research examines the effect on security prices of "contrast effects"—the tendency of investors to be more impressed with today's earnings surprises if yesterday's earnings surprises were negative, and less impressed if yesterday's earnings surprises were positive.

Closing out the morning, Joseph Gerakos also from the Booth School will present research that touches on the ongoing debate about the viability of active versus passive management. He uses the Sharpe style methodology to analyze the performance of active institutional managers, and finds that the average manager generated a positive net alpha relative to benchmark, in part by dynamically rotating on factor exposures.

This afternoon, we will wade further into the active-versus-passive debate with what we expect will be a provocative panel discussion on "Smart Beta Strategies," featuring Chris Brightman of Research Affiliates, Ron Kahn of BlackRock, and Rob Shapiro of State Street Global Advisors. Watch out for the cross-fire!

Following the panel discussion, Ken and I will have the honor of presenting the biennial Wharton-Jacobs Levy Prize for Quantitative Financial Innovation to one of the giants of finance, Bill Sharpe. Bill is being honored for his work on returns-based style analysis, research that remains very relevant today, some thirty years later. We very much look forward to hearing his remarks.

The purpose of the Jacobs Levy Center forum is to shine a spotlight on and encourage debate about some of the key issues in investing in today's market. As you can surmise from our agenda, that is exactly what you will experience today.

I hope you will join us at the cocktail reception at the end of the day. Ken and I look forward to meeting as many of you as we can. And now I will turn it back over to Chris, who will introduce today's first speaker.

Thank you.