Jacobs Levy Center Conference – April 25, 2014
Welcome Remarks
Bruce Jacobs, Advisory Board Chair

I'd like to welcome everyone to the second annual conference of the Jacobs Levy Equity Management Center for Quantitative Financial Research.

We established the Jacobs Levy Center and the Wharton-Jacobs Levy Prize for Quantitative Financial Innovation in 2011 to honor our firm's 25th anniversary. The Center is dedicated to the advancement of quantitative finance through the study and creation of innovative financial techniques and methods, and their application to the analysis of stocks and bonds and the management of investment portfolios. The goal is the improvement of everyone's financial well-being.

Ken Levy and I are products of the Wharton School. When we were here in the 80s, investors were still coming to grips with efficient markets and random walks and were not quite ready for quant innovation. That has changed dramatically since we graduated. Quantitative is now not just accepted, but widely used.

One thing that hasn't changed is that the practice of investing, as well as investment markets, continue to evolve. High-frequency trading has roiled markets from time to time and, some would argue, pushed less automated traders to the sidelines. A few stock return regularities that were once considered anomalous in the context of efficient market theory are coming to be considered systematic factors akin to beta, exploitable via "smart beta" portfolios. Fundamental indexes and ETFs pressure both traditional capitalization-weighted indexes and active managers.

In our forthcoming *Journal of Portfolio Management* article, "Smart Beta versus Smart Alpha," Ken Levy and I address the rise of smart beta strategies. These aim to outperform the capitalization-weighted market, through relatively simple alternative weighting methods that emphasize a handful of factors. Though similar in some respects to passive investments, smart beta strategies are the product of active choices and should be compared with proprietary active multifactor strategies, which could be called "smart alpha." We think investors should look twice before leaping into smart beta.

Two of our speakers today address related questions. Christopher Hrdlicka looks at the time dimension of some smart beta factors. Jeremiah Green demonstrates the significance of numerous return predictor signals, many more than the few exploited by smart beta strategies. In addition, Rabih Moussawi examines how the explosion in ETFs has affected stock return volatility, and Azi Ben-Rephael asks whether investment managers give clients a fair shake when it comes to trade allocation.

And I can safely predict that our keynote speaker, Jeremy Siegel, will have something edifying to say about forecasting in this age of uncertainty.

And, I hope you will join us at the cocktail reception at the end of the day. I look forward to meeting you.