PROS and CONS of QUANTITATIVE INVESTING

Midwest Asset Management is fully committed to a quantitative process in the securities industry, and our reasons are:

- To maximize meaningful and consistent net alpha in an efficient manner
- To minimize the two major obstacles to success, *high fees and subjectivity*

The following Summary has additional reasons why this strategy was implemented. If you would like to review research regarding any of the following topics or have any questions see our **Research Studies** page or contact **James.Byrd@quantmanagement.com**.

- *Advantages of a Quantitative Approach*
- *Decisions under Uncertainty*
- *Why Small Managers Matter in Portfolios*
- *Immediately increasing your returns while simultaneously decreasing your risk is really easy*
- *Are "Commission Free" Stock Transactions Really "Free"?*
- *U.S. Corporate Bond Credit Analysis Models*

Summary

There are always advantages and disadvantages of any path taken. Below is an outline of our detailed analysis, *Advantages of a Quantitative Approach*, along with several potential disadvantages - which can usually be controlled.

Pros

Return Advantages

- Process can be time-tested to determine the significance of their edge
- Process can eliminate significant behavioral biases from the process
- Process can evaluate a large opportunity set

Risk Advantages

- Process can identify virtually all sources of risk in a portfolio
- Process can reduce operational risk
- Process can reduce the risk of being fooled by randomness
- Process can help investors to maintain confidence during the inevitable periods of underperformance
- Process can further diversify a multi-manager portfolio

Cost Advantages

- Management fees should be meaningfully below market averages
- Portfolio transaction and liquidity expenses should also be below average

Cons

Data Disadvantages

- Data base(s) may have significant inaccuracies or omissions
- Data base(s) may lack relevant factors, or have unnecessary factors which can create noise

Managerial Disadvantages

- Portfolio manager(s) lack sufficient experience in back-testing research and real-time analyses
- Portfolio optimization can result in poor out-of-sample performance when inputs are estimated with significant error(s)
- Dependent on historically significant factors continuing to be successful

Conclusion

Midwest strongly believes that well-designed and well-implemented quantitative processes meaningfully increases your probability of success. Moreover, even if a process is simply "average," the manager should be in the top one-third of its peers. This is because management fees should be significantly lower than most active managers.