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Improve returns by picking losers: Triguboff

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The best way to improve returns is to start looking at losing stocks, according to Michael Triguboff, managing director of MIR Investment Management.

Speaking at the ipac Thought Leaders Event “Finding tomorrow’s alpha”, Tribuboff explained that both quantitative and qualitative approaches to investment can drive returns, at the same time, if managed effectively.

“Both the quantitative and the qualitative can be alpha additive – neither is mutually exclusive,” Triguboff said. Arbitrarily merging the two approaches together, however, will see one or the other eventually cannibalised, and the key was using both approaches to identify losing stocks.

One of the key advantages of a quantitative approach, according to Triguboff, is that it is “front-end loaded”. “That allows decisions to be made up front and therefore have more discipline,” eliminating losing stocks based on pre-set judgments. Qualitative investment, on the other hand, was more flexible which meant managers could wander off track “inch by inch” and include stocks which initial quantitative screens would have labelled a loser. Not only that, but the qualitative universe for decision making was limited.

“If you look at the stocks the pure qualitative shops are holding compared to two to three years ago, you’ll find a lot of correlation. That’s not to say those stocks are bad, but the analysts have already done the research, they like the management, it can be a little bit lazy.” This translated into a smaller investable universe, Triguboff said, which meant an active manager’s opportunities for finding alpha were being stifled.

However, in order to ratchet down factor risk, quantitative strategies take a very broad brush to stock selection. This made quantitative-only investing “a blunt instrument”. “Only 43 per cent of stocks in a winning quantitative portfolio outperform the benchmark… we believe that diversifying away risk also diversifies away the alpha.”

If you could eliminate some of the 57 per cent of the portfolio that were losers things would start to look better. And this is where the mix of quantitative and qualitative could beef up alpha.

“We believe a combined qualitative and quantitative investment approach helps to concentrate the portfolio.” Once the quantitative screens have stripped out identified losers, a qualitative analysis should strip even more losers out of the portfolio and allow a manager to build a portfolio based around stocks which are a win for both camps. For Triguboff, eliminating the losers on two fronts meant big wins for alpha hunting.

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