

The Quant Factor



John Montgomery

Founder and chief investment officer, Bridgeway Capital Management, Inc.
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1 What would you rather be doing, creating a quant model or analyzing a stock?

For sure, creating a quant model. We get excited about research across a broad spectrum of stocks over a lot of years.
Looking at an individual stock is mildly entertaining but irrelevant.

2 What advantages does quant investing offer over other types of investing?

At Bridgeway, we take emotion out of the investment process, which evidence tells us is enemy number one. We do not act on hunches or theories; we act with discipline based on data over decades.

3 What are the biggest traps—investing or otherwise—quants can fall into?

Some investment management firms believe an event five standard deviations away from the mean can't happen. Other traps are the same as for fundamental managers—**focusing too much on the most recent market environment** and changing the process on that basis.

4 Bridgeway's funds are performing well in 2012 after struggling for a couple of years. Is quant back?

Quant never left. Success is measured by the funds behaving within their design parameters. There are times when small doesn't beat large and value doesn't beat growth, but that doesn't mean that investors shouldn't crave exposure to these factors. Patience is a friend to the investor and to our organization.

5 What are the main drivers of a company's performance?

Ultimately, company-level cash flows drive a stock's price. But that can take a long time to come to fruition. In shorter periods, especially some macro-driven markets of 2008 through 2012, we've seen it go the opposite direction.

6 What makes the momentum factor work?

There are many arguments for why it works and not much consensus. **The two that resonate most with me come from behavioral finance.** The disposition effect is the result of investors selling their winning positions prematurely to lock in gains while hanging on to their losing positions with the hope of breaking even in the future. The diffusion of information effect says that it takes a while for good or bad news to be reflected in a company's stock price.

7 In some of your funds, several models are at work. Is there a danger that these models could work at cross-purposes?

In our Select strategies, **we're specifically looking for factors that are less correlated.** We're trying to dampen the volatility inherent in an individual factor to give a smoother ride overall. Momentum complements value stocks, for example, and gives you a less volatile performance stream. This is all about diversification, and we see it as a plus.

8 Bridgeway exhibits good stewardship in the funds it runs and as a company itself. Why is good stewardship important to you?

It's who we are. In the end, it is the right thing for investors and for our community.

9 You and Bridgeway spend a lot of time and effort on giving to charities. Where do you see the most need?

Through personal actions, each of the 29 Bridgeway partners answers the question of where they can make the biggest difference. **We focus on transformational change**, which involves personal engagement and relationships, in addition to dollars. We care about people and the world around us.

10 You've already had a varied career. If you couldn't work in finance, what would you want to do?

I love what I do and whom I do it with. If I weren't doing this, **I'd pursue peacemaking full time**, but it's hard to call either "work."

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