Old Mutual quantitative strategies investment insights

Funds managed by the Quantitative Strategies team include:

- Old Mutual Global Equity Absolute Return Fund
- Old Mutual Global Equity Fund
- Old Mutual North American Equity Fund
- Old Mutual European Equity Fund
- Old Mutual Japanese Select Fund

OMAM's Quantitative Strategies team manage a range of diversified global, regional and single country portfolios using a dynamic quantitative team based investment approach.

This approach is based on our view that equity markets are inefficient and do not necessarily reflect all the publicly available information, and that investors are prone to swings in sentiment and other biases. Share prices therefore often diverge from fair value, creating opportunities for objective, disciplined investors.

The investment process forecasts returns for individual stocks by evaluating diverse fundamental and technical data on companies, industries and markets. Here we outline the different types of measures that we have developed in order to identify share price inefficiencies and determine whether to invest in a company, or alternatively whether to short a stock if our investment process has identified it as having the opposite chracteristics from those described below.

Sustainable growth

Although some companies are forecast to grow very quickly and may therefore make good investments, one of the problems with this kind of prediction is that the current strong rate of growth of a company may not last and the stock price may fall. We aim to identify the subset of growth companies whose growth appears to be more sustainable over the longer term.

Analyst sentiments

Market analysts can move stock prices when they change their forecasts for the companies they follow. We monitor what analysts are saying for each stock we cover but, more interestingly, we also monitor how the stock price responds to changes in analysts' forecasts. We believe the market sometimes takes time to respond to the changing views of analysts and that we can profit from holding stocks that are slow to respond to this information.

Valuation

One of the key things we look for is whether, given its current price, a stock appears cheap or expensive. If a stock is currently priced lower than its assets and earnings growth suggest it is worth (i.e. it is cheap), then we would look to buy it and profit as its price moves upwards towards its implied value.

Market dynamics

The next signal we look at is the actual price movements of the stocks we cover. The behaviour of stock prices can sometimes be a tool for forecasting future price movements and we use several techniques to detect these trends. As an example, when stocks within a particular industry start to perform well due to an improved outlook for the industry, some stocks may lag the industry as a whole. We can take advantage of this by detecting these 'lagging' stocks and investing before their prices follow the rest of their industry upwards.

Fundamentals

The final piece of the puzzle is the quality of each company. We look at a number of measures but, simply put, we look at the strength of a company's financial position. For example, is a company carrying a lot of debt? Quality becomes particularly important during turbulent markets as investors look for stronger companies to invest in. We also look at the management of each company and, more specifically, if they may be over-investing. Often, when companies are spending cash to acquire other companies they have a tendency to overpay, which can have a negative effect on their own stock price.

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