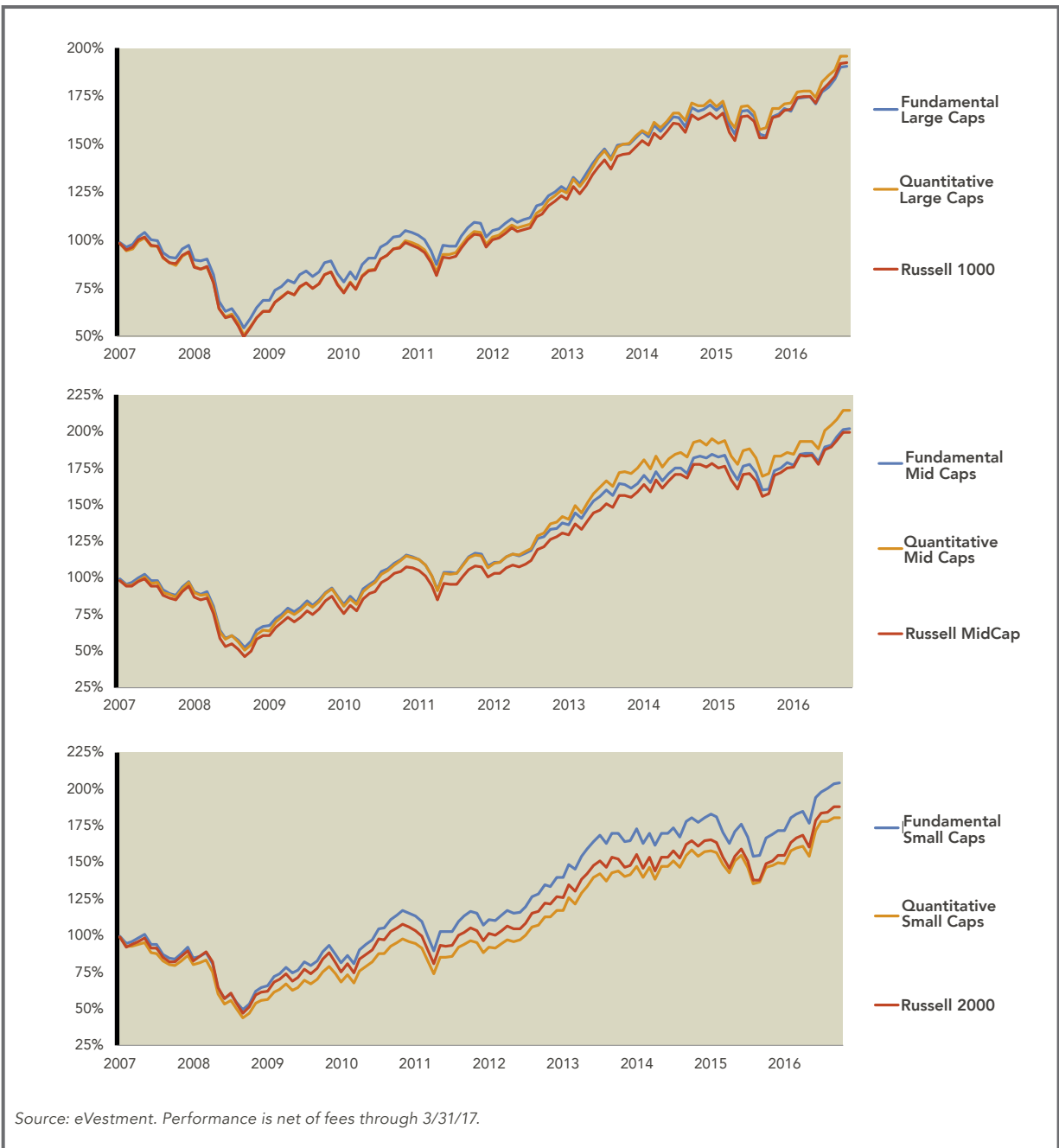



# Chart of the Week

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## Quantitative vs. Fundamental Strategies: Who Has the Edge?

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How do performance trends differ between quantitative and fundamental strategies? This week we explore those differences amongst U.S. large, mid, and small cap equities over the past business cycle.

Quantitative and fundamental strategies first differ in their approach to selecting stocks. Quantitative strategies rely on mathematical models weighing a varying amount of factors while fundamental strategies rely on solid company standing, outlook, and a more human touch through proprietary analyst research.

Within the large cap universe, quantitative funds, on average, were unable to provide much downside protection during the financial crisis. However, over the course of the ensuing bull market these funds were able to outperform the benchmark and eventually their fundamental counterparts. This could perhaps be attributed to quantitative funds having a greater ability to react nimbly to any buy signals generated as a result of massive inflows into the large cap benchmarks in recent years. Strategies within the small cap universe experienced a scenario on the opposite end of the spectrum. Here, quantitative funds were unable to offer neither superior upside nor downside protection versus the benchmark; on average these performed worse than the index and over the course of the bull market were unable to outperform enough to recoup those extra losses. As this universe of smaller companies has less analyst coverage, perhaps quantitative strategies struggled to capture enough readily available data from which their models could generate accurate signals. Strategies in the mid cap space exhibit an interesting pattern of their own. Quantitative strategies were able to protect on the downside along with fundamental strategies and were also able to outpace the outperformance of fundamentals.

While these patterns are certainly not guaranteed to persist through the next business cycle, they may offer insight into which universes quantitative strategies have either an advantage or disadvantage, whether it informational or reactionary. As quantitative strategies continually adapt through additions of new factors or tweaks to their models, it will be interesting to see how the two strategy types compare over the next business cycle.