

Quants vs Traditionalists

By Raymond M. Mullaney – April 12, 2024

Stock price forecasters compete using vastly different methods:

- 1) "Traditional Analysts" derive price forecasts from a combination of qualitative assessments and their substantial experiential knowledge.
- 2) "Quantitative Analysts" forecast prices through the application of complex algorithms and models, using mathematics and statistical analysis on historical datasets to inform their predictions.

There are 5 "must-know" concepts for every method of investing:

- 1) Has the method undergone rigorous, independent backtesting across diverse market conditions?
- 2) What was its maximum drawdown? How does this compare to industry benchmarks?
- 3) What level of returns did the method generate during periods of robust market growth?
- 4) How did the method perform during significant market downturns, both in terms of losses and potential gains?
- 5) What is the method's track record of average net profits over the past three decades?

Inquire rigorously—these questions are the bedrock of asset protection and growth. Insist on documented responses for accountability and clarity. Who and how were the back tests conducted? What source performed the independent testing? Ensure you fully comprehend the investment strategy and its alignment with your financial goals. Proceed with deliberation, thoroughness, and without undue haste. Guard against speculative practices with your capital by selecting advisors with proven, independently-backtested strategies that are demonstrably better than the S&P 500.

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