



Enhanced Indexing Analyses

A multi year examination of Quantitative Strategies.

Analysis Summary

This analysis includes many quantitative topics. As part of this analysis, we have isolated a number of strategies focusing on special situations and classical arbitrage. Our team has examined enhanced indexing techniques identifying many possible alpha capture opportunities. We have monitored statistically important events for all indexes.

The history of passive indexing shows that it is difficult to beat the index on a regular basis. This is the essence of the efficient market theory and is the primary reason we index. However, even the efficient market theory concedes that from time to time opportunities arise which may represent alpha capture. Our analysis identifies systematic, regular error which can be traded to attempt to create positive alpha.

Predicting a directional move with a high degree of confidence may represent an alpha positive event. Clients may wish to appropriately over/under weight the security in the index. This is true for any security the client holds regardless of why the ticker is moving. For example, the client may be a Russell indexer but the price is moving due to a re-weight by S&P.

Quantitative Strategies Covered

Low Volatility Event Strategy (LVES)

The LVES identifies short term pricing behavior allowing the indexer to capture alpha. The indexing client is already long one side of the trade, having knowledge of likely future price behavior provides the client with an alpha capture event. The information ratio is clearly superior to the market.

Multiple Common Equity Pairs

In our pairs model we have identified a specific spread trade which is strongly mean reverting. Similar to other strategies the passive indexer is long one-half of this trade. From time-to-time, there may be entry and exit points in spreads associated with multiple commons. Our screening process identifies extreme outliers net of volatility, and recommends trading appropriately to capture this temporary price displacement.

Equity Secondary Offerings

Our examination of secondary offerings has identified a mean reversion opportunity. In order to raise capital existing companies often make secondary equity offers. News of the offer is priced into the security at various moments in the time series. We have identified points of entry associated with the mean reversion. Importantly, these points of entry may be optimal trade windows for the index manager.

S&P Additions and Removals

We have examined fifteen years of additions and removals associated with the Standard and Poor's Equity Indexes. We examined the post effective date time period. We successfully partitioned the data into groups with statistically different return vectors. Use of a five-year moving average removes high-impacting transitions early on in the time period examined. We find certain groups remain consistently alpha positive up to the present day.

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