Quantum The monthly newsletter of the Deutsche Bank Quantitative Strategy team

Welcome to the February edition of the DB Quantitative Strategy Team's monthly newsletter, **Quantum**. The aim of Quantum is to make it easier for you to keep track of all the research we publish, and to serve as a forum to highlight the latest news and thinking in the quant investing world. If you only read one email from us every month, make it Quantum!

With winter still lingering (at least for the shivering Northern Hemisphere half of our team) it's been a good time to stay indoors and work on a few interesting research projects. In the U.S., our latest paper focuses on how equity and bond markets respond to **macroeconomic announcements**. We find, somewhat surprisingly, that certain announcements are associated with consistent risk premia on the announcement day, irrespective of the direction of the surprise. We suggest a simple model to harness this phenomenon.

Meanwhile, over in Asia we take a deep dive into **investor sentiment**. Our first step is to devise a way to measure aggregate market sentiment, and then from there we can study which equity characteristics are rewarded in different market "moods". At the same time, our European team has returned to one of the most common quant factors of all: **price momentum**. In that research, we suggest a simple way to mitigate some of the devastating drawdowns that momentum suffers around market turning points.

Lastly, we want to say a big thank you to all of you for your support in the **2013 Institutional Investor All-Europe Research Team** survey of sell side analysts. With your help, we were named the #1 quant team in Europe for the second consecutive year. This, in conjunction with our back-to-back wins in the All-American survey in the U.S., gives us a lot of confidence that our research is on the right track. So thanks again for your support!

Regards,

The Deutsche Bank Quantitative Strategy Team
North America: +1 212 250 8983
Europe: +44 20 754 71684
Asia: +852 2203 6990
DBEQS.Global@db.com | https://eqindex.db.com/gqs/

Recent Research

North America

- **Signal Processing: Independence day** (February 7th, 2013): We show that many macroeconomic announcements are associated with predictable risk premia, irrespective of the actual direction of the surprise on announcement day. We propose a model to harness this phenomenon by avoiding macroeconomic uncertainty. To read the whole report, click here.
- **The Quant View** (February 4th, 2013): This new monthly report highlights the current recommendations from all our key models, including our bottom-up stock selection models as well as our top-down asset and country allocation models. To read the whole report, click here.

Europe

- **Quantitative Musing: Momentum - Riding a bumpy road** (February 15th, 2013): The fact that the Price Momentum payoff is characterized by a long left tail which typically occurs in the aftermath of deep bear markets, renders the gains from any - even moderately - successful timing strategy quite substantial. We evaluate simple, price-based signals to tactically adjust our exposure to the Momentum factor. To read the whole report, click here.
- **Top-Down Monthly Update: MCRM update** (February 1st, 2013): The MCRM model uses economic trade flow data to rotate among countries. This month the allocation in the long portfolio for the month of February mainly includes Emerging Market countries, and Japan. In the short portfolio, we highlight the exposure to Europe and Canada. To read the whole report, click here.

Asia

- **Quantiles: Harnessing investor sentiment** (February 3rd, 2013): On top of fundamental analysis, a successful investor would have also learned to harness "investor sentiment"- the "animal spirits" described by Keynes. The aim of this report is to assist equity investors as they ride the collective mood swings in Asian markets. We describe the sentiment cycle and show which equity characteristics to favor and to avoid during each of its phases. To read the whole report, click here.

Global

- **Academic Insights: Harnessing the best ideas from academia** (February 21st, 2013): Every month we scan the latest academic research for innovative but practical quant investment ideas. This month one of the interesting papers we highlight confirms our own finding: momentum works better when there is stock-specific news whereas reversal dominates when there isn't. To read the whole report, click here.

Note: to access these links you need a login to the DB Quant website; if you don't have a login, or have forgotten your password, please click here and fill out the requested details.

Quant in the News

Interesting news articles related to quant investing:

- **Quantopian Looks to Break Wall Street's Lock on Algorithmic Trading** (*advancedtrading.com*, February 8th, 2013): We've often argued that one of the reasons the traditional quant factors don't work as well anymore is because simple quant strategies are so accessible now; anyone with Yahoo finance and a spreadsheet can run a value or momentum strategy these days! This article highlights a new firm that is making it even easier to run a sophisticated quant strategy, without the usual overhead of building a technology infrastructure. To read the whole article, click here.

Quantomatic: Latest trends in quant technology

Each month we use this section to focus on the technological side of quant investing. Our view is that better technology can be a source of alpha in its own right - either via new, cutting-edge data sources or through more data intensive modeling techniques.

It is perhaps not too great a stretch to say that Excel is the ubiquitous foundation on which the entire finance industry is based. This is not automatically a bad thing; Excel has many advantages, like its ease of use and the ability to rapidly visualize and manipulate data. However, an over-reliance on Excel can also be dangerous, as anyone who has tried to untangle a macro-infested worksheet riddled with spaghetti VBA code can attest to. For an entertaining read on just how dangerous Excel can be, take a look here. Even we quants, who tend to pride ourselves on using more "sophisticated" programming languages, can easily fall into the trap of an over-reliance on the program that is probably the first one most of us open in the morning. Beware!