



Welcome to the June 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!

June has been a wild month for most quant investors. The Bernanke-fueled reversal was the type of one-off event that is challenging for most quant models to handle (of course, it's tricky waters for fundamental managers to navigate too). Our view is that this kind of episode once again illustrates the importance of making quant models macro-aware. Our research this month offers a few suggestions on how to do this. In the U.S., our "Quant View" paper is a monthly report that highlights a number of useful top-down metrics that can help manage risk-on/risk-off shifts. For example, the **Variance Risk Premium** is a tool we use extensively in our models to help understand the future risk environment. We also keep a close eye on which strategies are looking **crowded**. For example, at the start of May we flagged that Low Volatility and High Yield strategies were looking crowded, and cautioned that this implied elevated downside risk. It turns out that was a good call.

In "Quantfucius", our monthly report for Asian investors, we use our useful **value decomposition model** to understand which equity characteristics investors are paying a premium for. We find that headline news regarding implications of the Fed's policies and "Abenomics" seems to be fairly priced in, except perhaps the valuation premium attached to higher earnings revisions in Asia ex-Japan which could be vulnerable to a stronger dollar.

Regards,

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Recent Research

North America

- **The Quant View (June 4th, 2013):** In this report we present our latest quantitative forecasts for bottom-up stock selection and top-down asset allocation. In last month's edition of this report we warned that the Low Volatility/High Yield trade was looking crowded. This month we analyze what turned out to be a good call. To read the whole report, click [here](#).
- **The Quant View: Small cap edition (June 4th, 2013):** This month we study the efficacy of low volatility strategies in the small cap space. Despite conventional wisdom that small caps are a place to look for growth not safety, it turns out the low volatility anomaly is alive and well in this segment too. To read the whole report, click [here](#).

Asia

- **Quantfucius: Quantitative ideas for investors in Asia (June 7th, 2013):** In this monthly report, we showcase the best ideas based on our quantitative signals and model forecasts. We include both bottom-up stock selection ideas as well as top-down country allocation calls. This month, to understand which equity characteristics investors put a valuation premium on and assess better how the investment environment influences these premia, we revisited our past study on value decomposition by using Bayesian Model Averaging. To read the whole report, click [here](#).

Global

- **Academic Insights: Harnessing the best ideas from academia (May 24th, 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 shows that the U.S. market does indeed lead other major markets, and in fact the lead-lag relationship can be exploited to predict other markets. 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:

- **Turning Market Hits "Trend-Following" Quant funds** ([reuters.com](#), June 27th, 2013): One-off events like the Bernanke-driven sell-off of risky assets are difficult for quants to capture in their models. For many of us, it's been a challenging month. To read the whole article, click [here](#).
 - **Guru Networks Sell Social Investing to Copycat Traders** ([bloomberg.com](#), June 26th, 2013): Facebook for traders? Apparently it's the next big thing; instead of liking you friends' cat photos now you can like their trades instead. To read the whole article, click [here](#).
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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.

We recently came across an interesting new application that we think will be a welcome addition to quantitative investors' toolboxes. The IPython Notebook is a comprehensive and interactive web-based computational environmental. This open source platform supports a host of programming languages including R, Perl, Ruby, Bash, and of course Python. Additionally, the Notebook has support for parallel computing including multicore CPU usage and cloud computing. This toolbox allows for the easy export of results to various formats

including LaTeX, PDF, and HTML. Version control and live interactive collaboration is also supported. The features and capabilities of web-based computing applications such as the IPython Notebook may be an ideal tool for quantitative research, analysis, and collaboration. More information on the IPython Notebook can be found [here](#).

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