

3. The “edge” of an Active Investor

“To be an active investor, you must believe in inefficiency to get opportunities, and in efficiency for those opportunities to turn into returns”^[1]

“Who Is On the Other Side?”,
Michael J. Mauboussin (Director of Research, Blue Mountain Capital Management), 2019

In order to be successful, **an investor must consistently find and exploit some inefficiencies** of a financial market. Micheal Mauboussin identifies 4 such main inefficiency areas:

1. **Behavioral** (i.e. sentiment analysis)
2. **Analytical** (i.e. skill in correct inferring from incomplete data or more know-how in a specific area)
3. **Informational** (i.e. institutional advantage over individual investors)
4. **Technical** (i.e. index rebalancing or fund flows)

[1] source: <https://www.bluemountaincapital.com/wp-content/uploads/2019/02/Who-Is-On-the-Other-Side.pdf>

4. Behavioral example: Skewness of returns