Conclusions

- there exist **a variety of successful investment strategies** that are well known and publicly available, yet are unsuitable for some or even most investors

- **a winning strategy** possesses an **“edge”** due to either:
  informational, **analytical**, **behavioral** or **technical** advantages over other market participants

- **skewness** and **sensitivity to tail risk** scenarios explain some of the potential payoffs for following such a strategy

- a need to **survive volatility** are also obstacles an investor must tackle. Not all investors manage to do so

- **behavioral biases and overcrowding trends** can lead to fluctuations between the profitability of a known strategy. When a strategy “falls out of favor” and is less widely adopted, it can regain it’s previous potential of higher profitability

…which explains how **a popular, widely known strategy can survive and continue to be profitable.**

As a side note:
The popularity of a strategy lowers it’s “edge”, or gain over a random, passive market strategy,
although it rarely depletes the strategy completely.

Further reading

“How Can a Strategy Everyone Knows About Still Work?” — A great research article by **Cliff Asness**, CEO of AQR Capital Management. Further investigation of the effects of overcrowding on popular factor-style investing strategies (impact on profitability and on liquidity)
https://www.aqr.com/Insights/Perspectives/How-Can-a-Strategy-Still-Work-If-Everyone-Knows-About-It

“Who Is On the Other Side?” by **Michael J. Mauboussin**, Director of Research, Blue Mountain Capital Management. A perfect starting point in discussing sources of potential advantages to active investing.
https://www.bluemountaincapital.com/wp-content/uploads/2019/02/Who-Is-On-the-Other-Side.pdf

A comprehensive study of over 300 different investing factors reported in financial research papers is done by Harvey, Campbell R. and Liu, Yan and Zhu, Caroline, **“…and the Cross-Section of Expected Returns”** (February 3, 2015). Available at SSRN: https://ssrn.com/abstract=2249314 or http://dx.doi.org/10.2139/ssrn.2249314

The authors argue that a much more rigorous statistical procedure for testing significance of a perceived discovery is appropriate for such studies, to account for non-reported failed discoveries and rule out data-mining, resulting in much less actual factors being statistically significant.

A similar test was done in Hou et al., **“Replicating Anomalies”**, 2017.
http://www.nber.org/2018LTAM/hou.pdf