Portfolio Construction

Craftsmanship Alpha: An Application to Style Investing

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Successful investing requires translating sound investment concepts into actual trading strategies. We study many of the implementation details that portfolio managers need to pay attention to; such choices range from portfolio construction to execution.

While these kinds of decisions apply to any type of investment strategy, they are particularly important in the context of style investing. Consider two managers who both intend to capture the value factor in a long/short context: each manager might make a number of decisions, many of which can lead to meaningfully different outcomes. These choices can often explain why one value manager outperforms another.

Ultimately, what may seem like inconsequential design decisions can actually matter a lot for style portfolios. In fact, the skillful targeting and capturing of style premia may constitute a form of alpha on its own — one we refer to as "craftsmanship alpha."

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