Demystifying the quant

Quantitative analysis is seen by many as something of a dark art, but it plays an increasingly central role in investment and risk management

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From big data to driverless cars and artificial intelligence, technology is changing the world. At the forefront of this revolution in the investment world is quantitative analysis. Move over Gordon Gekko – the new 'masters of the universe' are now likely to be powerful algorithms programmed by 'quants' with a background in maths, finance and computer science.

These super-geeks create mathematical models that aim to predict the future of the markets. They may have first been used by hedge funds in their aggressiveness to make money, but banks, asset managers and others have long since caught up with the use of quantitative methods.

Today's traders predominantly rely on computers to make decisions that were once the preserve of humans. BlackRock, for instance, uses data from satellite images of China's biggest cities to help work out whether it should buy or sell stocks in Chinese developers by observing the size of the shadows of buildings in the images and drawing a conclusion. Through this type of quantitative analysis, investment managers can remove bias, create consistency and make decisions more effectively.

"Essentially, the job of a quant involves building models to create profitable trading strategies, analyse the risk inherent to a portfolio or company's book, or find outliers in markets," says Karl Sawaya, Quantitative Developer at Dolfin.

> "A quant builds models to create profitable trading strategies
>
> KARL SAWAYA · QUANTITATIVE DEVELOPER, DOLFIN

Growing importance

The role of the quant has changed significantly, too. Once just attached to trading desks, today you will also find these maths whizzes sitting within risk management teams carrying out a wide variety of tasks. Improved analytic software has helped quants glean insights from ever

Why I decided that a stocks and shares Isa was the best way for me to invest

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Piecing it all together: Mr Zaver saw the potential benefits of investing CREDIT: GETTY

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One saver explains how he is reaping the benefits following his decision to invest for the first time

Ash Zaver
College lecturer

Ash Zaver, 60, had never invested before, but just six months after making his first investment in a stocks and shares Isa, he couldn't be happier. "They say you can't teach an old dog new tricks," says the college lecturer from Walsall, West Midlands. "But what really motivated me to consider a stocks and shares Isa was the potential for high returns. My savings were in a cash Isa and becoming stagnant."

Many investors can be put off stocks and shares Isas because of the possibility of losses. But they have the potential to outperform cash savings in the long run and, what's more, investors do not pay tax on any gains they make.

So why did Mr Zaver make his decision? "Initially, I was a little concerned," he says. "My friends kept saying to me, 'You're turning 60 and almost retiring.' But I took the emotion out of the decision, looked at the facts and read up on it. Once I familiarised myself with the process, it was easy to understand."

He decided to invest £1,500 into a stocks and shares Isa. Six months in and he is already seeing the benefits. "Now I'm feeling much more confident about investing," he adds. "I'm even aiming to increase my investment amount."

Investing convert

Mr Zaver has become an investment convert. He is in it for the long term. "Even though I'm just scratching the surface at the moment, I'm probably inclined to take on more risk now," he says.

He was already aware of the tax advantages associated with Isas, which allow you to shield up to £20,000 of savings and investments from tax every year. With retirement on the not too distant horizon, Mr Zaver is weighing up what to do with his pension pot.

"After my positive experiences I'm strongly considering investing my pension lump sum into a stocks and shares Isa," he says. "With annuities, the return on investment isn't quite there."

Grand plans

And what does Mr Zaver think he will eventually do with his investment? "I've always had this ambition of blowing some of my savings and buying a Harley-Davidson motorbike," he says. "If I was to give you my bucket list, you would probably say that I should grow up."

The advice Mr Zaver would give to people considering taking out a stocks and shares Isa – especially with the tax year-end approaching on 5 April – is simple. If you don't use your Isa allowance each tax year, you lose it.

Some people worry about these Isas being subject to the fluctuations of the market, but this depends on your attitude to risk. He says: "You should weigh up not just the risks but also the benefits. You will find the whole process is relatively straightforward."

All investment carries risk and you may get back less than you invested. The tax advantages of Isas may change in the future and also depend on your individual circumstances.

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