
DEMOCRATIZE QUANT, INDIA AND THE OIL MARKET

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Last week on the “Behind the Markets” podcast, Liqian Ren and I spoke with Wes Gray, CEO of Alpha Architect, about the Democratize Quant Conference, which is coming up this week. Later, we were joined by Gaurav Sinha, Associate Director of Asset Allocation and [Modern Alpha™](#) at WisdomTree, to talk about India and asset allocation. Jay Hatfield, CEO of InfraCap, discussed his outlook on the [master limited partnership \(MLP\)](#) space.

Democratize Quant Conference

Gray organizes the Democratize Quant Conference, which will take place at Villanova University this week. Some of the industry’s leading quantitative finance practitioners will be in attendance, discussing theories being applied by quants in the market today. The goal of Democratize Quant is to promote discourse in order to inspire new ways of thinking and differentiate itself from most conferences, where speakers simply pitch their products.

India’s Elections

Sinha recently returned from a trip to his native country, India. He noted the remarkable jumps in economic growth he’s witnessed on each sequential visit to India that he has made since moving to the United States in 2008. He believes the country’s upcoming elections will be the biggest in history, as they will not only cost \$7 billion but will also help determine the outlook on India’s long-term growth. Sinha is optimistic about India’s direction after the country recently overcame a down period in emerging markets.

Quantifying Allocation Decisions

Sinha also explained a [risk-on/risk-off](#) asset allocation model that he has spent a great deal of time researching. The model is based on the link between highly [correlated](#) assets portending a correction that feeds into high [volatility](#) in the following months. Over the past year, this was seen most notably in the fourth quarter of 2018. The base of this model is to identify unusual spikes in correlation that will determine whether investors should be [bullish](#) or [bearish](#). Sinha described this as an attempt to quantify tactical or high-frequency asset allocation decisions that one could further refine with a qualitative overlay.

InfraCap Focus

InfraCap has mutual fund, hedge fund and MLP units, and it focuses on income strategies. The discussion focused on the MLP business at InfraCap and Hatfield’s outlook on the oil market. Hatfield is bullish as he believes the curbed [Organization of the Petroleum Exporting Countries \(OPEC\)](#) output and industry tend to do well during “driving season,”—typically, the second and third quarters.

Although Hatfield suggests investing in MLP due to undervaluation and tax advantages, investors should undersize their

allocation. For example, if an investor has 5% in utilities, Hatfield often suggests 2.5% in MLPs because of their volatility levels.

Hatfield went on to describe optimism about preferred high-income debt, particularly in the [real estate investment trust \(REIT\)](#), MLP and mortgage spaces. These instruments generally have favorable spreads that are above their actual intrinsic [credit risk](#), in Hatfield's view.

Listen to the full conversation with Gray, Sinha and Hatfield below.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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DEFINITIONS

Modern Alpha : Modern Alpha® combines the outperformance potential of active with the benefits of passive—to offer investor strategies that are built for performance.

Master limited partnership (MLP) : Investment structure where holdings typically must derive most of their cash flows from real estate, natural resources or commodities, combining the tax benefits of a partnership—taxes occur when holders receive distributions—with the liquidity of a publicly traded company.

Risk-on/risk-off : refers to changes in investment activity in response to perceived risk. During periods when risk is perceived as low, investors tend to engage in higher-risk investments. When risk is perceived as high, investors tend to gravitate toward lower-risk investments.

Correlation : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

Volatility : A measure of the dispersion of actual returns around a particular average level.

Bullish : a position that benefits when asset prices rise.

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

Organization of the Petroleum Exporting Countries (OPEC) : whose mandate is to coordinate and unify the petroleum policies of its members and to ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, a steady income to producers, and a fair return on capital for those investing in the petroleum industry.

Real estate investment trust (REIT) : Investment structure containing a basket of different exposures to real estate, be it directly in properties or in mortgages. Returns predominantly relate to changes in property values and income from rental payments.

Credit risk : The risk that a borrower will not meet their contractual obligations in conjunction with an investment.