



Melanie Blue CFA, CPA, CA
Head, Investments

Melanie Blue is 18 Asset Management's Head, Investments. In her role, Melanie is responsible for the day-to-day management of 18 AM's portfolios.

Over a 24 year career, Melanie has built a solid investment management foundation, attaining both her Chartered Professional Accountant and CFA designation as well as gaining valuable portfolio experience in portfolio management, security selection and risk management.

Her considerable portfolio management experience includes an emphasis on quantitative research into factor investing. Melanie is a natural leader with strong team orientation.

18 AM Explains Factor Investing

WHAT IS FACTOR INVESTING?

Investors often talk about stocks in terms of that stock's "fundamental factors" or "factors". These factors are merely characteristics describing some facet of the stock. Just as a car could be described by discussing, among other things, its capability for speed, fuel efficiency or safety, a stock could be described by focusing on factors illustrating its value, growth, income or risk characteristics. With cars and stocks, beauty is in the eye of the beholder and certain characteristics (or factors) might hold greater weight for some versus others. Factor investing then is merely the practice of searching for stocks with the best attributes in a given factor or best score across a number of factors.

WHY DO YOU THINK FACTOR INVESTING IS SO POPULAR THESE DAYS?

Two things are greatly contributing to why factor investing is so popular today. One, is the prevalence of fundamental data and software platforms. High quality data is readily and cheaply available on multiple platforms. CPMS and Bloomberg are but two examples of popular data platforms in use in Canada. Today, data are easy to find and cheap to buy. Consequently, the barriers to entering factor investing have dropped dramatically since the 18 AM team designed its first factor model in 1991. Two, ETFs and marketing have been primary drivers of popularity. The marketing behind so called "Smart Beta" ETFs makes it sound like this is a new kind of investing. The investing public is always looking for the "next thing" and hence smart beta is the current fad. Clearly, experienced factor investors, such as the 18 AM team, know that factor investing is not new. They also know that factor investing is not beta. That is, smart beta isn't even remotely close to passive index investing. Even good, intuitive factors carry potential volatility and, of great importance, significant propensity to go through bouts of prolonged underperformance. Hence:

- ▶ Patience is required.
- ▶ Smart Beta exposures should be diversified. Do not 'bet' on one factor.

WHAT ARE THE BENEFITS OF A FACTOR-BASED INVESTMENT PROCESS?

A factor-based process provides clients with a disciplined investment process that is repeatable and not subject to the vagaries of human emotions. Experienced professionals managing factor based portfolios understand that factors come in and out of favour. However, these professionals also understand the value of staying the course as timing factors is just as unlikely to be successful as timing the markets. Factor investing is inherently disciplined as each stock has to contribute to the factor exposure and thus, **empowers clients to understand how their money is being managed**. Knowing the factor exposures being sought, a client readily understands why each position resides in the portfolio and why positions were sold. Knowing the factor strategy also enables clients to monitor the portfolio on an aggregate and individual holding basis. Factor investing provides these benefits to clients in a way that traditional fundamental portfolio management, where each position is justified on its "story", does not. Factor investing can be boring (to some) as the "story" element of positions is not emphasized. With factor investing, the factors are the story.

WHAT IS 18 AM'S EXPERIENCE IN FACTOR INVESTING?

The factor investing expertise at 18 AM resides with three people:

- ▶ President, Jeff Brown,
- ▶ Head of Investments, Melanie Blue
- ▶ Chairman, Doug Crocker

Jeff and Doug have been working together since 1990. They have been managing factor-based portfolios since they designed their first Canadian equity factor model in 1991 to exploit value factors. This would have been one of the first 20 factor models in North America in the history of factor investing. Melanie joined to make it a trio in 1994. They have been doing factor investing a long time but, more importantly, for a long time together as a unit. Few others have been at factor investing for this length of time and even fewer teams could match the tenure of the 18 AM team. Since 2001, Doug and Jeff have been members of an exclusive US-based, factor investing association called the Chicago Quantitative Alliance ("CQA"). They were this association's first foreign members. Doug and Jeff were invited to make a presentation to this group on factor investing best practices. Jeff recently joined the CQA Board. Additionally, Melanie and Jeff are regularly invited to guest lecture on factor investing at the Ivey Business School. A big element of the 18 AM team's factor investing experience is in the area of risk management. They have pioneered approaches to measure, monitor and manage the risks associated with factor investing.

[For further information on factor investing, please contact 18 Asset Management.](#)