

Quant Factor investing in Emerging Markets: the magnified problem of crowding and the case for a Long Volatility Overlay strategy.

Luca Parlamento

Macquarie University

After the academic introduction of risk-based investing, factor investing has been the fastest growing segment in the asset management industry since the 2008 global financial crisis. As pensions schemes and endowments have allocated hundreds of billions into this strategy, the problem of crowding on quant strategies has become the top priority for any asset allocators; the issue is particularly magnified in Emerging Markets given liquidity and investable universe are thinner than in US. In this article we examine the problem of crowding and we propose a novel Long-Volatility strategy which exploits information on factor crowding.