

DEVELOPING A BLOOMBERG APP IN LUXEMBOURG.

The Luxembourg company AlphaSearch, now sells its software on the Bloomberg App store. Its newest platform, "behave! Pro", exploits anomalies and inefficiencies in worldwide equity markets mainly explained by behavioural biases. The software is used around the world by investment professionals to support stock selection and sector allocation.

LFF spoke with Alexandre Colin, founder of AlphaSearch.

Can psychology help us better understand financial markets and provide us with hands-on stock picking strategies? Behavioural finance theorists suggest they can and this led Colin, at the time a fund manager in Luxembourg, to begin his investigation into how the use of factor-based algorithms could help asset managers beating the market.

"After the internet bubble exploded, the forecasting value of sell-side analysts was questioned, as roughly 80% of them had a Buy or Strong Buy rating just before the collapse. In the following years, academics found that they indeed had value, but probably not in the way initially thought. Several pieces of research also identified other inefficiencies in the stock market that could be exploited, mainly explained by behavioural patterns. They are the foundation of several Smart Betas", explains Colin.

The idea behind the financial platform is to enable professional money managers to use stock selection and asset allocation models based on so-called market anomalies, now also known as Smart Betas. The "behave!" application equips the client to create his own investment universe or import a portfolio, and backtest it with various models exploiting inefficiencies which have been shown to exist for an extended period of time in various markets and countries, avoiding forward looking and survivorship biases.

"Our aim was to build a platform that enabled the user to define his own investment universe, apply the proprietary models that we have developed based on price, volume and numerous consensus data published by analysts. The user would then apply these models to the universe that they have created to search for Price Momentum, Earnings Momentum or Value anomalies that they can exploit. Typically, the fund or portfolio manager would use the decile ranking produced by behave! to either screen for new buy or sell ideas in his own investment universe, or combine it with his fundamental and technical analysis. We also have traders who target shorter term investment horizons, and hence generally use models built around earnings momentum. We are in the process of adding a new Low Volatility model, in order to cover all generic Smart Betas, an investment strategy which exhibits the advantages of both passive and active management", points out Colin.

UNIQUE ECOSYSTEM FOR GROWTH

Luxembourg's financial centre offered the ideal environment to support Colin as he set about developing his product.

"There has always been a spirit of entrepreneurship in Luxembourg and it has always been very easy to start a company: administration is very light and the government has always been very pragmatic. The international nature of Luxembourg also makes it very easy to set up a new company and find the competences you need would it be legal, accounting or IT".

Beyond finding a ready market for his services, Luxembourg was also the perfect location to grow and develop AlphaSearch internationally.

"It's often taken for granted but the location of the Grand Duchy within Europe and the proximity of the airport makes it very easy to prospect in an efficient manner. Also, when you go abroad, if you say you come from Luxembourg, it's a recognised financial centre, so I would say that it definitely adds to your credibility when you are a new company as you market your services abroad".

STAYING ONE STEP AHEAD OF THE MARKET

In 2012, the company was invited by Bloomberg to launch "behave!" on their app portal, which is now distributed around the world through the 320,000 Bloomberg Professional terminals.

"There is always competition, but there are few actors delivering the type of turn-key service that we offer. In fact, the real competition comes from the target users themselves when they have developed their own filters or models, but which are usually less sophisticated than what we offer, or cumbersome to update and maintain. And this is where outsourcing can make a difference. As we continue to relentlessly improve our software and models, we are confident that we will continue to thrive from our base in Luxembourg".

Looking ahead, the company plans to take advantage of the Bloomberg distribution network by closely targeting the Asian market where the behavioral anomalies can also be strong. **GM**



► Alexandre COLIN

Founder,
AlphaSearch

