

What is Quantitative Investing?

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Quantitative investing, often shortened to "quant investing," is an investment approach that relies on mathematical models, statistical analysis, and computer algorithms to identify investment opportunities, construct portfolios, and manage risk. The advent of powerful computers with access to millions of data points and sophisticated models has made quant investing mainstream in the past several decades.

Unlike traditional fundamental investing (which relies heavily on human judgment, in-depth company analysis, and economic outlook), quant investing is a **systematic, data-driven, and rule-based** method that seeks to remove emotional bias from the decision-making process.

Quant vs. Fundamental Investing

The main distinction lies in the approach to making investment decisions:

Feature	Quantitative Investing	Fundamental Investing
Decision Driver	Computer models, statistics, and algorithms	Human judgment, in-depth research, and intuition
Analysis	Focuses on measurable data (price, volume, ratios) and patterns across a broad universe of assets.	Focuses on qualitative and quantitative analysis of a small number of companies (management, economic moat, intrinsic value).
Bias	Minimal human/emotional bias, as decisions are automated.	Susceptible to human biases and emotional decisions.
Technology	Heavy reliance on advanced computing, data science, and machine learning.	Relies more on financial statement analysis and economic theory.

“Quant investing replaces emotional decision-making with disciplined, data-driven models. That allows SGI to efficiently manage hundreds of stocks while controlling total portfolio risk.”



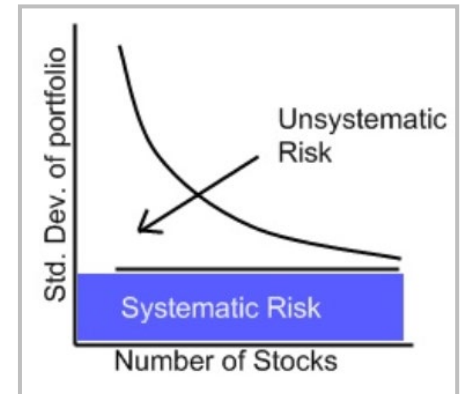
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Why does SGI's Investment Team use Quantitative Investing for stocks?

Summit Global Investments CEO and founder, David Harden, launched the firm using a quantitative investing approach on his first mutual fund. Today, SGI holds over 400 individual large cap, small cap, and international stocks in our various mutual funds and ETFs. It would require a very large group of fundamental stock analysts to cover so many different holdings across our many products. Such a costly endeavor could perhaps even result in the firm being unprofitable.

Summit Global Investments uses somewhat of a hybrid approach. Using a quantitative investing approach allows the investment team to efficiently manage a large number of holdings across various investment styles. Meanwhile individual company fundamentals are reviewed for company specific risk that may not be explicitly reflected in the quantitative models.

Owning only a few stocks exposes investors to a large amount of individual company risk (unsystematic risk). A large decline in any individual holding could severely damage total portfolio returns. Across all our funds, SGI uses a managed risk approach that seeks to lower total portfolio risk. One method of lowering total portfolio risk is by increasing the number of stocks.



Which stock selection approach is better?

Quantitative investing has some built-in advantages such as minimal human bias, ability to evaluate a large number of companies, and typically lower total portfolio risk. However, historically, each approach can claim both successes and failures.

Jim Simons, a former mathematics professor and hedge fund manager, has produced one of the most outstanding track records in history using a purely quantitative approach. On the other hand, Warren Buffet, using a fundamental approach, is considered one of the greatest investors of all time. There is no clear winner and market risk (systematic risk) cannot be diversified away. All stock investors (if unhedged) will have exposure to stock market risk.

How often does SGI make changes to stock portfolios?

Typically, the investment team runs the quantitative models monthly. On a risk/reward basis, we sell those companies that appear less attractive and buy or add to those that seem more attractive. This process is called rebalancing. However, it is important to note that portfolio managers may buy or sell individual stocks at any time based on an evaluation of the company's future prospects relative to its risk.

Does using Quantitative Models always generate outperformance?

There will never be a "magic" formula that always outperforms the market. If there were, everyone would use it and it would soon lose its effectiveness. That is the elemental nature of all competitive financial markets. In addition to the investing approach used to select stocks, countless other factors affect the performance of a specific fund. Rest assured, SGI's professional investment managers use a well-developed, disciplined investment process to generate results for all our financial products.

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