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# 'Quant guys' no match for complex markets: academic



[Tahn Sharpe](#) August 3, 2018

in









Probability theory is all well and good at the casino but largely ineffective when dealing with the stock market, professor of experimental finance Peter Bossaerts says.

The reason, he says, is that while the “quant guys” are crunching numbers based on a level of certainty, the finance world is too nuanced and uncertain for us to know what outcomes will eventuate.

“The finance guys have been thinking about uncertainty as if the outcomes from the stock market look like the outcomes from a roulette wheel,” Bossaerts explains. “When you throw the little ball it can land anywhere, but if you do it over and over again you know what the chances are that it will land on red or black. It’s standard probability.”

**Have your say** Peter Bossaerts, an honorary fellow at the Florey Institute for Neuroscience and Mental Health, says these machine learning.

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Buffett doesn't "flip a coin and hope it comes up heads more than tails", he says. He looks at a company valuation like a complex problem.

"Buffett rearranges companies and tries to maximise their value," he says. "That view is fundamentally different than the view the quant guys have."

The issue for investment professionals is that they aren't Warren Buffett, and while countless investors have tried to mimic his judgement, Bossaerts makes a concerted effort to translate the Buffet way of thinking into a standardised method.

"What I've done is formalised the way Buffett thinks," he says. "Just like the quant guys formalise the way they think using probability theory, I'm formalising what people like Buffett do, but in mathematical language."

Bossaerts says the language he uses in his work is "the language of computer science and complexity", and likens it to that of Alan Turing, the computer scientist portrayed in the movie *The Imitation Game*.

"Turing was the one who started thinking this way," he says.

Bossaerts will be a speaker at the [2018 Portfolio Construction Forum Strategies Conference](#), to be held at Carriageworks in Eveleigh on August 22-23.

This year's forum will feature 45 investment thinkers from around the world debating contemporary and emerging portfolio construction strategies in the context of the thematic question, "Are future-proof portfolios achievable?"

[INVESTMENT THEORY](#), [PETER BOSSAERTS](#), [QUANTITATIVE ANALYSIS](#), [WARREN BUFFETT](#)



Tahn Sharpe is a Sydney-based financial services journalist with a background in financial planning. He writes on advice, superannuation, investment, banking and insurance issues, is a certified SMSF Adviser and holds an Advanced Diploma of Financial Planning. Contact at [tahn.sharpe@conexusfinancial.com.au](mailto:tahn.sharpe@conexusfinancial.com.au)

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