

Q&A: Author Andrew Berkin Talks Science Fiction, Investing Fact and His New Book, *The Incredible Shrinking Alpha*

Laura Latragna & Andrew Berkin

A self-proclaimed “quant geek” with a PhD in physics, Andrew Berkin has answered his share of tough questions. But it’s rare that he’s asked to quantify sci-fi franchises. In this BAM ALLIANCE interview, Berkin talks about science fiction, the investing reality chronicled in his new book *The Incredible Shrinking Alpha* and the odds he’ll attend Comic-Con.

1—What is your favorite sci-fi series?

ALB: Going back to my formative years, I’d have to say “Star Trek” (the original television series) and “Star Wars” (the 1977 theatrical release).

2— What appeals to you most about classic science-fiction stories?

ALB: I find appealing the interaction of the human element with science in a world that is at once realistic but also somewhat different. Perhaps that is a reflection of my approach to science and investing. I’m pretty much a hard-core quant geek, but it is really the marriage of quantitative and qualitative that makes a complete and compelling story for me.

3—Are there elements of science fiction that eventually become “science fact”?

ALB: Amazingly, a lot of the technology found in classic science fiction is coming closer to reality but is not quite ready for prime time. Going back to the original “Star Trek,” talking to your computer is becoming pretty standard. Actually, I do talk to my computer when I’m programming. It’s probably a good thing it doesn’t understand me because my words aren’t always so pleasant.

4—When it comes to alpha, how do investors separate fact from fiction? Where do they start?

ALB: A good way to proceed is to use the scientific method, applying it to investing. Larry Swedroe and I wrote a paper about this subject, which will appear in the Summer 2015 issue of *The Journal of Investing*. Not to dismiss the value of conceptual arguments, but too much of the discussion about investing relies on the anecdotal, which can obscure the bigger picture. We gain the most conviction when the story and the numbers come together, and the scientific method is a great framework in which to pursue such a study.

In our new book *The Incredible Shrinking Alpha*, Larry and I make the case that alpha is getting mighty scarce. We provide four reasons: 1) alpha is being converted into beta, 2) the pool of victims is shrinking, 3) the competition is getting tougher and 4) more money is chasing a limited supply of alpha. We offer evidence both quantitative and qualitative in support of our assertions.

But investors who wish to investigate on their own should by all means do so and come to their own conclusions.

5—Which book would you recommend for readers interested in quintessential classic science fiction?

ALB: Too many to choose from, and too many I haven't read yet. But as with investing, I'd recommend diversification. Instead of a single title, try out a selection of books to benefit from how different authors create their own distinct experiences.

6—What other subjects do you enjoy reading?

ALB: Lately, I've been checking out psychology books such as *Thinking Fast and Slow* and most recently, *The Man Who Mistook His Wife for a Hat*. With my son, we've been reading the *Encyclopedia Brown* books, which I loved as a child. It is gratifying to see he takes the same pleasure in them as I did.

7—Do you like comic books?

ALB: As a kid, I only got to read them at the dentist's office, which is perhaps why getting my teeth cleaned brings back fond memories. In college, I'd go through a whole stack as a much-needed study break. My son just turned nine years old, so maybe it is time to introduce him to a few characters.

8—Marvel or DC?

ALB: Marvel, going back to my college days.

9—You've lived in Austin and Los Angeles. What sets them apart from other big cities?

ALB: I also lived in Tokyo, which makes the other two places seem more like sleepy villages. All three cities have been home to me. I've traveled a decent amount, and wherever I go, I'm drawn to those aspects that are unique to each city or region. To harken back to an investing theme, it is the diversity of experience one gets from visiting different places that makes it exciting.

10—Comic-Con International is again considering moving its annual gathering from its home in San Diego. If Comic-Con were to be held in Los Angeles, would you attend the convention?

ALB: Only if my son wanted to go, in which case we'd be there in a flash. But right now, he'd be more interested in attending a Minecraft convention.

About Andrew Berkin, PhD, director of research, Bridgeway Capital Management, Inc.

Andrew Berkin, PhD, is a director of research and joined Bridgeway in 2013.

Prior to joining Bridgeway, Andrew was co-chief investment officer and director of research for Vericimetry Advisors. He previously was a senior member and director of the quantitative research group at First Quadrant, where he spent 14 years in a variety of responsibilities, including the development and implementation of stock selection models in both taxable and tax-exempt portfolios primarily for institutions.

Andrew earned his Bachelor of Science with honors in physics from the California Institute of Technology and a Doctor of Philosophy in physics from the University of Texas, where he concentrated his studies in general relativity and astrophysics. Andrew is also on the editorial board of the Financial Analysts Journal.

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