

Jeff Christie's Alpha Blog

What is *Alpha*?

June 20, 2009

As an introduction to my firm and to start this new blog, I wanted to answer a question that I receive all the time. "What exactly is *Alpha*?"

Well, my friend, whether you know it or not, you seek *Alpha* everyday. *Alpha* is defined in many ways: it is the first letter of the Greek alphabet, it denotes dominance (such as the alpha male/female in a pack), and it is the brightest star in a constellation. But in finance, it is defined as a positive variance in comparison to a benchmark. It is above the average, or above what you expected to receive based on the risk you took on. *Alpha*, combined with other statistics, helps measure performance on a risk-adjusted basis. It takes the volatility of a portfolio, and compares its risk-adjusted performance to a benchmark, or index. The excess return of the portfolio relative to the benchmark is your portfolio's *Alpha*.

Alpha can be attributed to many different things, such as investment selection, sector rotation, timing, and of course plain old good luck. Although the good luck is tough to measure, the other factors are not, especially if you have a plan. When you are looking at your portfolio, do you have a strategy in place to add *Alpha*? Do you have the time and discipline to follow that strategy?

If the last 18 months have taught us anything, it's that we have to be prepared for change, and embrace it. Take time today to look at your investment plan and see if there are areas that could use some fine-tuning, or maybe even some that need a full overhaul. I believe there are some attractive opportunities out there right now; you just have to know where to look.

I would invite you to take a look at our report, "Rules for Building Wealth" at the following link to help give you a start (www.kenstern.com/money-club/). Our goal as a firm is to add *Alpha* to your investments, but beyond that, help to add *Alpha* to your life.

And speaking of *Alpha*, I hope I just put some into your day.

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