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Alpha as a Net Zero-Sum Game

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Abstract

Must aggregate alpha gains by one set of investors equal those lost by another set (after trading and research costs). In practice, the size of the alpha pie is not fixed. Investors' strategies, choice sets, horizons, benchmarks, and risk preferences vary, and investors face different constraints and access costs. Over time, capital may be added to or taken away from any subset of the global financial system. It must be true, however, that global economic growth will drive the ability to provide net positive alpha (over the global risky asset market portfolio), as it influences aggregate wealth and capital creation.

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