

# Perpetual knowledge bank series: alpha

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Alpha is a term used in investing to describe an investment strategy's ability to beat the market. It is a useful concept as it adjusts for market-related volatility and random fluctuations to let investors know whether a fund, trader or portfolio manager has managed to beat market return or a specific benchmark index over a given time period. Therefore, alpha can be seen as representing the value an active portfolio manager adds to or subtracts from a fund's investment return.

The excess return of an investment relative to the return of a benchmark index is the investment's alpha. For example, an alpha of 1% means a fund's return on investment over a selected period of time was 1% better than the market during that same period. Equally, a negative alpha means the investment underperformed the market. It should also be noted that actively managed funds include various fees, and such funds must maintain an alpha greater than its fees in order to provide positive gains. Alpha is often compared to and contrasted with beta, which is the measurement of the volatility of an investment when compared to a market index.

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