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Improving Alpha

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JMDinvestments

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Improving Alpha

Alpha is a measure of risk-adjusted performance. Positive alpha means an investment manager has generated returns in excess of what should have been earned given the level of risk taken. However, what if two funds have the same alpha--are they equally good? Well, tracking error helps to distinguish which fund might be better, as a lower tracking error might mean less risk and a more significant alpha. ([See article here, Wall Street Journal.](#)) The Information Ratio divides alpha by tracking error to provide a more comparable performance metric.

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