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NEWS

## Uncommon Interview with Mark Carhart

The Maroon caught up with Carhart (Ph.D. '95) to discuss academics, finance, and being a rabid quant.

by Al Gaspari - Apr 23, 2010 7:33 am CDT



PHOTO: MARK CARHART

Mark Carhart earned his Ph.D. in Finance from the University of Chicago in 1995, and was soon at Goldman Sachs, where he served as a co-Chief Information Officer of Quantitative Investment Strategies. In 2009, after he'd run Goldman's Global Alpha Fund, Reuters called him "a star hedge fund manager." He quit last April and founded a new company this month called Kepos Capital LP, where he's the CEO. The Maroon caught up with him to discuss academics, finance, and being a rabid quant.

Chicago Maroon: How did you first get interested in finance?

Mark Carhart: In junior high school, I opened a brokerage account and started trading on my own. The second stock I purchased was a company called Birdview Satellite, which went bankrupt about six months after I purchased it. Instead of discouraging me, that actually increased my interest in the stock market.

*Mark Carhart quit Goldman Sachs to found his own business.*

CM: Can you describe your investment strategy?

MC: I'm a die-hard quant. Some would say rabid. By quant I mean that I use the scientific method to build an investment strategy. The objective of this method is to remove emotion and behavioral biases from the decision making process. This is quite different from traditional security selection where there is a lot of storytelling but not much critical testing of ideas. In addition, the quant approach gives a framework through which to evolve an investment strategy over time as you gather new insights and data.

CM: What did you learn from your time at the U of C?

MC: Chicago taught me to be skeptical, to learn through critique, and to appreciate the importance of empirical analysis. Probably the most important skill I carry with me every day is how to look at data and infer useful patterns, but also avoid the pitfalls in seeing relationships that are more likely to be coincidental.

CM: How important are academics in your strategy?

MC: My business is very research-intensive. Therefore my colleagues and I have traditionally managed it not unlike how an academic department would run at the University of Chicago. Our faculty are our senior researchers—many of which are former academics—and our students are our junior researchers. For example, we have held regular research seminars where we critique each other's research and have always sought to make our decisions in a collegial and consensus-oriented way. The fact that I was trained at the University of Chicago and spent two years as an academic significantly informed how I have managed our business.

CM: What did you learn from the economic crisis?

MC: Probably the most important lesson was the magnitude of commonality in the investment approach we followed across the broader investment community. Success in quant investing in the future will hinge on developing unique ideas that are differential from competitors. The second lesson is that models and approaches need to be more dynamic. When evaluating long-term historical price patterns, it's hard to appreciate how quickly the models needed to evolve. Having lived through 2007 and 2008—and the earlier LTCM crisis and the Internet bubble—I better appreciate the need for dynamic models which will have more variation in risk and signal composition.

CM: Where do you think the economy is headed?

MC: The honest truth is that although I have been trained as a financial economist, the macro economy is incredibly difficult to forecast. But given that, I'm optimistic about the global economy's resilience to the recent liquidity events and downturn.

CM: Investing can be stressful. How do you handle the pressure?

MC: Successful investors need to be capable of managing stress. This is because there is so much noise in asset prices that, whatever happens on a day to day basis, there's not a lot of information revealed about true value. I believe you need to train your brain to largely ignore shorter-term movements and focus on longer-term trends. In addition to this, I spend a lot of time doing intense aerobic exercise like cycling or skate-skiing. That's my meditation.

1 COMMENT ON “UNCOMMON INTERVIEW WITH MARK CARHART”

MARCUS AURELIUS Jun 8, 2010 at 4:22 pm CDT

reply

the same guy whose GA/GEO funds were annihilated by front running by technologically superior, higher latency funds, has started another fund, with essentially the same low-latency strategy, and named it for a Greek colony that was overrun by technologically superior enemies. history repeats itself?

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