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Sheila Dang

Data Mining Can Pump Up Returns — If Done Right

Data experts say asset managers who harness the power of data will have a better chance of generating alpha, if they know what to look for.

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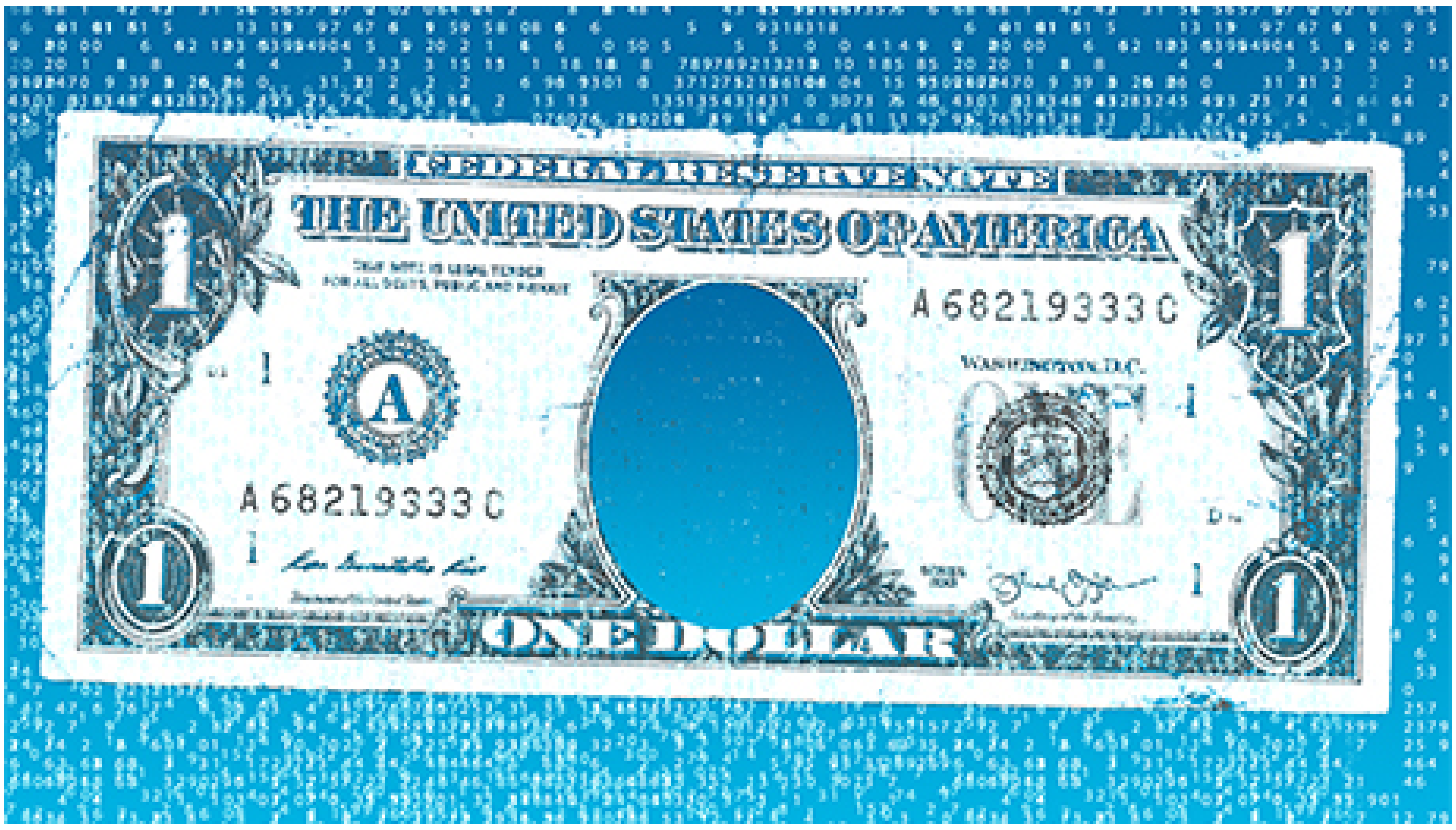

Data Mining Can Pump Up Returns — If Done Right

It was a nearly unanimous conclusion: in an investment environment where information is increasingly ubiquitous, asset managers who mine quantitative data will have a better shot at finding higher returns.

“Introducing data to your process can only give you an advantage,” said Tammer Kamel, founder and CEO of Quandl, a financial and alternative data provider, at the DataDisrupt Financial Services conference in New York on Thursday. Kamel was one of four panelists for a talk entitled “Rise of the Machines,” a discussion of how complex financial data, often shaped by machine learning, will become increasingly important for portfolio managers.

Kent Collier, founder and CEO of Reorg Research, explained during the panel that human judgement still plays a role in the application of data. Reorg Research delivers email alerts when an item is filed in a bankruptcy case, which allows subscribers to move quickly if they’re invested in the company. But the firm also employs journalists and analysts to provide intelligence to clients based on the filings.

Hedge funds that have in-house data scientists are outperforming in the market, said Michael Marrale, CEO of research and analytics firm M Science, during the panel, giving

Michael Marrale, CEO of research and analytics firm M Science, during the panel, giving further evidence that alpha is being found in data.

“Data utilization is necessary for any sort of performance, even benchmark performance at this stage, and it’s only going to increase,” Marrale said.

But data sets don’t have endless alpha-generating abilities; to address this, Kamel said his firm limits how many times a data set can be sold to clients. There is also the question of what to do with all that data. One theme that emerged among the panelists is that many investment firms are struggling to incorporate data into their strategies, making the task of hiring and retaining data scientists important.

Many firms have the ability to gather data, but the challenge is how to define what it can be used for, said panelist Seong Lee, a quant strategist at Quantopian, a firm that crowdsources investment algorithms and has attracted backing from Point72 Asset Management’s Steve Cohen.

“People aren’t taking as much time to figure out where technology can be pointed,” he said. For example, a firm may try to use data for alpha generation, but the data may not be suited for that purpose and could be used in another way, he explained.

Marrale acknowledged that the cost of incorporating quantitative data into an investment strategy would make it too expensive for smaller firms to use. Still, he said, portfolio managers need to be aware of the financial data that is readily available about a company. Marrale pointed to athleisure brand Lululemon, which reported fourth-quarter earnings on Wednesday that were below expectations; its stock price subsequently dropped. Investors who were paying attention would have avoided being on the wrong side of the trade, he said.

“Not everyone can afford to be in the game like hedge fund clients,” Marrale said. “But there has to be a level of understanding from the portfolio manager about what the data is showing.”

Filed Under: Quantopian , Quandl , M Science , Reorg Research

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At least one manager could be spinning out of the shuttering multistrategy hedge fund.

March 30, 2017

Get Ready for the Eton Park Cubs

As the saying goes, when one door closes, another one opens — or several, in the case of the hedge fund industry.

High-profile hedge fund closures are often followed by a host of launches of firms formed by the top portfolio managers who worked at the shuttered firms. Eric Mindich's announcement last week that he is closing his multistrategy hedge fund firm, Eton Park Capital Management, and returning investors' capital after ten years in business is already providing fodder for speculation about which of the firm's portfolio managers and analysts are prepping their own funds.

A multistrategy firm formed in the model of Goldman Sachs' proprietary arbitrage desk, Eton Park has plenty of talented portfolio managers who will now be on the market. As recently as 2015 Eton Park, which lost 9.4 percent last year, had $9 billion in assets.

Among the Eton Park partners whom former colleagues and associates say will be in demand are Allan Merrill, head of merger event driven; Aaron Wertentheil, head of structured credit and derivatives; and Bruce Haggerty, head of long-short and event investing. These portfolio managers could choose to launch their own firms or join established money managers; in recent years launching a hedge fund has become less of a default option, with funding harder to come by.

One source with knowledge of what is happening inside Eton Park says Mindich could seed one or more spinouts. This person says Merrill is the strongest candidate for starting his own fund, possibly with backing from his former boss.

Regardless of whether Mindich decides to invest with any of his current portfolio managers, seeding a new generation of talent is not an unusual option for hedge fund managers who shut down their firms and, often, turn them into family offices. The most famous of these is Julian Robertson Jr.'s Tiger Management, which ostensibly morphed into a hedge fund seeding business. Others, such as Stanley Druckenmiller — George Soros' former deputy, who shuttered his very successful hedge fund in 2010 — have been quietly investing in startup funds over the past few years. Richard Perry, Mindich's former boss at Goldman Sachs, who announced the closure of his firm, Perry Capital, earlier this year, is expected to invest with at least one of his former portfolio managers: Todd Westhus, who is reportedly in the process of launching his own firm.

Among the Eton Park cubs already in existence, formed by people who have left the firm over its ten-year life, is Governors Lane. That New York–based event-driven fund was formed by former Eton Park partner Isaac Corré in 2015.

Those wishing to invest in any new Eton Park spinouts will have to wait some time as the fund winds down. A source with knowledge of the situation says the first round of layoffs is expected next month, with another in June, and the fund expects to be more or less done by the end of 2018. A spokesperson for Eton Park declined to comment.

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