MODULE 2 UNIT 2
Video 1 Transcript

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NIR VULKAN: Hello, everyone. In this module, we're going to look at a little bit of historical success and failure in systematic hedge funds.

There's some very, very large hedge funds around, managing many billions of dollars or pounds. And the success of these firms is largely due to the successful long-term relationship with their clients. This is an important thing. So, it's not necessarily the fund that makes more money is necessarily the best one, although it's very important to make money and to have good returns. But it is really about establishing relationships, in particular with the big pension funds and so on – the big allocators – and maintaining that over the years. So that if a bad patch comes, they don't run away, so to speak.

So, we have some great and important guest speakers in this module. We have Matthew Sargaison, who is the co-CEO of Man AHL. Man AHL is one of the largest systematic hedge funds in the world. And AHL is the initials of three statisticians from Cambridge. And they were, kind of, the pioneers of black boxes in this industry. So, a very interesting history there.

The next big speaker is Martin Lueck, who is the founder of Aspect Capital. And as it happens, he's the L from AHL. So, he's one of those three statisticians. It started and then he left and started his own very, very successful firm. And there's a lot of things I like about Aspect, but one of the things I like is that they have very good relations, a lot of transparency in the way they work with their investors. And I think that's been rewarded over the years. So, I highly recommend that video.

And then we have Daryl Cook, who's a partner at Tudor. So, Tudor is a world-famous hedge funds founded by Paul Tudor Jones, one of the founding figures of hedge funds in general, in Greenwich, Connecticut. And, you know, sort of, one of the— you can read about them as market wizards and so on. But Tudor is known, actually, mostly for Paul Tudor Jones, who is a discretionary trader. But Tudor actually has a lot of systems as well. And Daryl is going to tell us more about that. And it's really, really interesting to see how one of the world's largest and most famous hedge funds that you wouldn't associate with system actually has a lot of systems and a lot of respect for systems. And I think that's something we're seeing more and more in this industry.

There are some very, very large funds out there – Bridgewater Associates, J.P. Morgan has a very large funds, and Man AHL we talked about. Kind of, legendary funds, like Renaissance, that people talk about. Two Sigma and so on. So, some of these funds I described are fully systematic, like Renaissance and Two Sigma. Some are a mixture of discretion and systems.

What we want to do in this module, as I said, is to try and, kind of, have an understanding of successes and the relationship that they have created and how they've done that. And also we look at some of the famous blow-ups in hedge funds and try and, kind of, have an understanding what has happened. We would look at a number of cases from the famous – or infamous – Long-Term Capital Management, which was, sort of, supposed to be the hedge funds to, kind of, end all hedge funds with Nobel Prize winners and superstar traders. And then blew up. And we look at some other more recent blow-ups that have happened in recent years.

And we'll give you a little bit of details for these ones. And I want you, really, to think, because there isn't a textbook answer here, because there is no textbook, for why this has happened. There's always a mixture of bad luck and some bad decisions that were made before, which is easy for us to see in hindsight. But I really want you to think, yourself, as you are going through this modules, as you're learning these cases – and we'll give you the details about what has happened – I want you to think, what do you think has gone wrong? What was the main reason why, you know, Long-Term Capital has blown up or some of the more recent ones that we have seen? Almost always these things happen after a major macroeconomic event, sort of, a big event. You know, the collapse of the Soviets or a big drop in oil prices or the credit crunch crisis of 2007/8. Or more recently with COVID. You will see, there's a couple of examples. Obviously, these things contribute to that. But, maybe, some gear-up that happened before or some bad risk management have contributed to these things.

You will see throughout this course that some of these big movements, these big macro events hurt you in the beginning, but some systematic funds then go on to do incredibly well. So, systems have done really well in 2007, 2008. And systems have been doing really well in 2020 as well. So, you know, once the, kind of, big event happen systems can actually benefit.

So, I want you to look at these cases. And the question I want you to answer to yourself is, do you think it was a bad luck or bad choices? And I understand it's a mixture of both, but I want you, for each of these cases, to try as much as possible – MBA style – where you have the facts and you, kind of, what would you have done? Or what your opinion would have been on that situation? To see which of the two you think was the major factor in this particular blow-up.

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