MODULE 5 UNIT 1
Video Set Video 1 Transcript

IN COLLABORATION WITH getsmarter™

Module 5 Unit 1 Video Set Video 1 Transcript

NIR VULKAN: In this video, Steve Mobbs, the co-founder and partner in Oxford Asset Management, joined us again to discuss his advice for someone allocating money to algos for the first time, as well as the unique due diligence process.

What advice would you give to someone allocating money to algos for the first time? What kind of things should they be looking for or be aware of?

STEVE MOBBS: I think the first thing you'd say is that you should ask a lot of the same questions you'd ask to discretionary traders. What… you know, what's the basis of your models? How do you assess your models? How do you… how do you work out whether they work well, or don't work well? You know, judge people in the same way that you would non-discretionary traders.

What things might you look for differently? I think some notion of whether quantitative traders follow their models off cliffs. I think some serious questions about, you know, when does the model stop working? When do you retire the model? When do you change? When do you decide that the market's right and the model's wrong? A lot of us are more inclined to believe the market's wrong and the model's right, which doesn't get you very far in the long run.

What are the differences between algo funds and discretionary funds in terms of the due diligence process?

STEVE MOBBS: The main difference that I would think of would be issues around fat fingers and the way that trades get executed, and the possibility for catastrophic errors, you know, which, you know, humans don't catch until too late. That's the main thing that occurs to me. Perhaps I'm forgetting something, but I'd certainly be worried about that. That people have built sufficient controls around that eventuality.

But what we try and do is tell them, correctly, that, actually, this isn't a whole hell of a lot different from the sorts of discretionary things you invest in. All we're doing is trying to systematise the things that discretionary guys do. Now, some things we do better than discretionary guys, certainly the whole scale of it, and the ability to get diversification is better. Some things, frankly, I think are worse. I don't think I'd expect the computer to give me the ultimate view on a model, I think I'd really put that – on a company, I mean. I think I'd for choice go to somebody who really knew that company inside out.

What I do try and get over to people is this is not radically different from something that you're investing in. Now, in reality, there are some people out there, some investors who think that quant is, you know, the sexiest thing on the planet and, you know, it's the only thing you could possibly invest in. There are some people who won't invest in it under any circumstances. Both of those people are wrong in my opinion, but I think it has its place and I think it's an increasing place and, you know, I think you need to understand what it offers and, you know, that it – and, you know, be realistic about what it can do and what it can't do.

NIR VULKAN: Did you understand all of the concepts in this video? If you would like to review any of the questions, click on the corresponding button.

getsmarter.com | info@getsmarter.com
+44 203 457 5774 (UK) | +1 224 249 3522 (US) | +27 21 447 7565 (SA)