



MODULE 5 UNIT 2

Video 2 Part 1 Transcript

Module 5 Unit 2 Video 2 Part 1 Transcript

NIR VULKAN: So, hello everyone and welcome back. I'm here with my good friend Hans, who you've seen earlier in the course already. And Hans is a professor of finance in the IPAG Business School in Paris, but he also runs his own firm called Keynum Investments, and it's a French algorithmic trading investment firm. And it is this I wanted to talk to Hans about today, about Hans, about your experiences in starting a fund and running a fund. So perhaps you can tell us a little bit of what it was like to start your own firm.

HANS-JÖRG VON METTENHEIM: Yes, I mean, it's definitely a very interesting experience. It's somehow, when you are working in the quantitative area, opposed perhaps to the discretionary area, it becomes a bit different on how you will approach potential investors. So I think that might be the most interesting part of the experience, what is different when you are dealing with quantitative trading. And in my experience, you actually have an advantage because, if people are so inclined to understand what you are doing, then you can just tell them: Okay, these are the algorithms, these are our investment theses, our premises on which we are working. And that makes you somehow a little bit more credible than compared to the fact if you just say: Okay here, I have an idea of how to invest, of how to pick stocks.

So in this way, that actually really opens doors and facilitates approaching people, it's still not easy at all, you know, just cold calling somebody that will typically not work. But, at least if you can show you have some published work in the area, you have demonstrated some expertise, then that definitely gives you some credibility. All in all, I would say the basic processes for starting a quantitative venture will not be that much different than from any kind of fund or investment venture you would be starting. But this quantitative aspect definitely gives you a head up and opens some doors.

VULKAN: How hard was it to get the first kind of investment, the seed investments? Can you tell us a little bit about your experiences?

VON METTENHEIM: Yes, so in some way, at the same time incredibly hard, but also relatively easy. So let me explain this. So, incredibly hard, because it's always somehow difficult to persuade people to give you money, to manage money, to advise on. But on the other hand, all the people we approached, definitely these were people who had been knowing us for quite some time. So, typically, they had been looking at our algorithms, following us also for quite some time. For most people, I would even say they were friends, sometimes close friends. So, once we approached them, in the end, they didn't really hesitate that much and it was relatively straightforward then to convince them to really push the button and tell: Okay, yes, we are going to invest with Keynum, we are going to be advised by Keynum for part of our assets under management.

So yes, I would say overall, it was a very interesting experience where we have learned a lot. Because it's one thing if you talk to people about a quantitative strategy, so everybody will tell you: Yes, that's great what you are doing, that's very interesting. But then mostly, people will add: Okay, please come back in five years when you have a track record and when we have, I don't know, one billion under management.

So that's a little bit of a situation you face when you are approaching people that you don't know that well, that will not trust you, that will not believe in what you are doing, and first

want to see proof. But I think that's also very normal and very understandable, so that shouldn't discourage you. But with hindsight, we have now, I would say, we have been running this venture for around the past five years, so really starting to approach people for the past five years, and I would say, only since one or two years this is really panning out. And that means you need some way of sticking with that process.

The first three years, if you are a newcomer to the field, you will probably not be very successful at raising money. You might get some consulting gigs, but raising money would be difficult. But that's really what we noticed after having persisted for three years and always updating people about what we are doing, also asking for their feedback – what could we change? Can we incorporate something to make it more attractive for you into our strategy? This started to pan out, and now it becomes a little bit easier with some publications that are targeted at showing and showcasing what you can do and also with sticking to people, being a bit modest about what you can do, waiting for their feedback. So that has been quite a positive experience, although you really need some time, at least three years I would say, for it to work out.

VULKAN: So, these three years, this beginning, it's really important. It sounds to me like it's really important that your original investors stick with you throughout this time. And, at least my experience has been, there's always drawdowns. How do you manage that? How do you manage the expectations of people? How do you manage that they don't leave as soon as there is a drawdown?

VON METTENHEIM: Yes, I think you are raising a very important point – that one of expectation management. So that really depends on the type of investors. So, if you have in front of you a professional investor, they will understand what a drawdown is, they will already be able to understand the properties of your system, which in some way for a quantitative system, are easier to understand because, for the very least, you have a backtest. So I know this thing – you should never trust a backtest – but at least you can, you can show something. You have some idea about the distribution of returns – unfortunately, you don't know in which sequence the returns will arrive, so that is always a problem, ya, but at least for professional investors, managing the expectations is not too difficult.

But if we are talking of high net worth individuals, expectation management for them is much more difficult. Even having people who really like you and to tell you: Okay, I want to invest a significant amount of my net wealth into this. Then you have to say: Okay, be aware that these are, really, strategies you should diversify, so perhaps not more than five percent or one percent of your net wealth in a strategy. And that it is: you can only regularly speak to people, so we try to meet everybody at least once per year and keep in touch in between.

But then, you have one factor that unfortunately you are not the master of – that is luck. And for us, we were definitely quite lucky to actually start our products at a time when they had a long run-up phase. So that means the occasional drawdown that happened in between, and some of our strategies are really very volatile, so the drawdowns will also be comparatively high, they weren't so much of a problem.

But I still believe the only way of how to solve this, if your system is good in principle, but it has a drawdown phase, is really communication. So proactive communication; tell people: Okay, this is happening. People always want to hear a story. So that's a bit difficult

for quantitative systems. Really, you have a very good story because the idea is just to, you know, to run the system without needing any stories, any newspaper headlines, but still, often, with hindsight, you can explain what happened and this will typically help investors sticking with you and your strategies.

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