Asset Management vs. Hedge Fund Hiring Trends

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Since the "2 and 20" model has been under pressure for several years, decision makers are allocating resources more heavily towards high capacity beta. Sovereign wealth funds, pension funds, mutual funds, and other large sources of capital are understandably concerned with alternative investments' high fees and inherent volatility, moving their assets towards more market-neutral platforms with tighter risk limits and consistent records of capital preservation.

True alpha in fundamental investing is becoming rarer across asset classes with market gurus like Paul Tudor Jones, George Soros, and Alan Howard publicly announcing their difficulties in generating revenues and beating the market. Successful portfolio managers who built their fortunes on fundamental, momentum-based investing are aggressively refocusing their efforts to beta neutral long/short quantitative trading strategies.

Asset managers and hedge funds with asset management aspirations have been significant beneficiaries of this trend. Quant-driven funds like Winton, AQR, and Bridgewater have been raising billions to create a new hybrid investment style, have tremendous technology, research capabilities, and world class human capital. This allows them to run successful high capacity beta strategies with alpha "overlays", taking advantage of market altering events such as Brexit, the Swiss move, or a new IPO in the market. This is in direct contrast to their discretionary counterparts who have struggled to navigate as successfully through these incidents.

Despite this, traditional asset managers have had difficulty accomplishing the task of beating benchmarks such as the S&P 500. Asset managers are still executing their trades via out of date systems and over-paying Wall Street platforms for the privilege. These shifts in funding and investment styles are creating new and different challenges for both types of institutions, which cannot be solved with the existing personnel. Hedge fund managers are good at picking stocks or identifying esoteric correlation trades, but not necessarily skilled in constructing sustainable portfolios, hedging, or managing large and complex risk. Asset managers are not world-class at generating Alpha, but are indeed capable of managing large pools of capital while producing steady and consistent performance over the years.

Following these observations, Options Group sees the following talent pool trends taking shape over the next 36 months:

1. Electronic Execution Product Development and Trading staff hired away from Wall Street, hedge funds and execution platforms.

- Banks are less and less desirable to electronic traders, quant researchers, and developers.
- Many hedge funds and platforms are currently struggling to create a talent pool for asset managers, which were previously not available and relatively overpriced.

2. Portfolio Construction and other Quant Equity and Quant Macro researchers will begin to move from Asset Managers to Top Performing Hedge Funds and Banks

- Large Hedge Funds that are established and have consistent returns are benefiting from the reallocation of funding, but they do not have the expertise to manage the extra capital. While the industry is consolidating, the money is shifting heavily towards its best players.

- Asset management researchers have extensive Portfolio Construction experience and other relevant expertise crucial to running high capacity strategies.

- Asset Management Researchers are under-paid relative to hedge fund researchers, even though they are performing a similar level of work with comparable qualifications.

Contact an Options Group consultant today in order to learn how to empower your team, align your skill set, and get ahead of these trends.