AllAboutAlpha.com reader Rene Levesque of Mountjoy Capital writes:

The following article is in reference to a specific statement embedded into a featured item presented in AllAboutAlpha.com on September 23, 2009, i.e. “Alpha being airlifted out of the dying portable alpha strategies”.

The statement reads: “So it may come as no surprise to critics of hedge funds that portable alpha has lost its luster. But what may come as a surprise to them is the fact that it was traditional market beta, not the hedge funds, that led to its apparent undoing.”

This statement, with which I am in total agreement, is filled with subtleties and truths.

Much of those who rightly subscribed to the portable alpha solution unfortunately undertook presumptuous assumptions in their abilities (or in their consultant’s) to effectively evaluate and select the right “talent” for the alpha generating engine. Simply, the end result was the implementation of another beta overlay on their portfolio, but with a Portable Alpha label attached to it. And with the events that have transpired in 2008, their presumptuous assumptions have led them to the unfortunate realization that not all hedge fund deploy hedge fund strategies.

Real hedge fund strategies are managed by individuals who understand the mechanics required to generate absolute returns and the protection of the capital. Now, let’s call this “Hedge Fund Alpha”. These individuals have adopted the discipline to dynamically cut (hedge or reduce) exposures when the prevailing market forces are too overwhelming to prove them right in their thesis developed through traditional fundamental research. This research process is very similar, or the same, as the one undertaken by traditional asset managers. However, traditional asset managers are unfortunately not provided with the tools to truly de-correlate from their reference index and generate hedge Fund Alpha.

The traditional asset manager is locked into a beta, by virtue of the imposed investment policy and the statement of return objectives that refers to a benchmark. Their talent is revealed in their ability to effectively tweak the underlying exposures in reference to the established benchmark.

To use the analogy “fight fire with fire”; a significant portion of the mechanics and discipline to generate Hedge Fund Alpha dwells on elements within the following statement: “The deliberate, dynamic and tactical allocation of risks, long and short, to an array of betas, is a source of alpha”. The disciplined hedge fund manager respects the overwhelming forces of the market, like the firefighter respects the forces of fire. As
Manager respects the overwhelming forces of the market, like the firefighter respects the forces of fire. As well, the disciplined and talented hedge fund manager, will “harness” the prevailing market forces to accelerate or enhance the alpha generating engine through the dynamic calibration of risks and exposures. This can be undertaken at the individual position and at the overall portfolio levels. It is a luxury not available among the traditional asset managers and therefore a culture not developed within the traditional asset management arena.

Unfortunately, the hedge fund fees have attracted members of the traditional asset arena, thus contaminating the hedge fund space by applying their “traditional asset management culture”, but with the Hedge Fund label attached to it. And now the reader, by applying the principle of transitivity, can now relate the contamination of beta exposures within the hedge fund arena to the above statement of portable alpha mandates losing their luster.

The problem leading to the notion of “portable alpha losing its luster” does not reside within the concept of Hedge Funds per se. The problem resides within the concept of taking the same resources and methodologies that have been used to evaluate the traditional asset managers (perhaps effectively) and applying them in the evaluation of hedge fund managers and strategies. Of course, this includes the use of consultants who adopt these methodologies while also relying on quantitative screens that systematically fail to eliminate the strategies with implicit (and explicit) short volatility or gap risk exposures; i.e. the ones that do not typically reside in traditional mandates.

Let’s not forget that it is the beneficiary (or the guarantor) of these investment plans who are the true victims of these presumptuous assumptions.

- R. Levesque, October 2009
In Acrobat Reader, commenting features are available only in PDFs that have commenting enabled. PDFs in a review workflow typically include commenting rights. Replies to comments are especially useful in shared reviews, when participants can read each other’s comments. They can also be used by review initiators to let reviewers know how their suggestions are being implemented. When one or more reviewers reply to a comment, the set of replies is called a thread. Your reader’s minds are very selective. So we have to give them a reason to pay attention to our content instead of everything else out there they could be listening to. There are many obstacles in the path to gaining your reader’s attention. Even if you have the best product, service, or information on the planet, it’s still difficult to get people to give you the time of day. Here are some common obstacles to getting your prospect’s attention: A selection of our reader comments is provided below. We posted these pro, con, and not clearly pro or con comments in the approximate ratio that we received them, which is roughly 90% positive and 10% negative. The comments are arranged in reverse chronological order within each category. We sometimes edit comments for brevity, clarity, and spelling. We may also remove comments posted when we find better comments covering the same issues or for other good reasons. 7. Readers may “flag” other reader comments. If a reader flags a comment, moderators will endeavor to review that comment as soon as possible. We do not remove every comment that has been flagged. 8. Stop and think before you comment. We won’t remove comments because a reader or writer regrets a post. Please remember that these comments are searchable and a comment history has a long life on the web. 9. Don’t include personal information in your comments. Use PowerPoint with your keyboard and a screen reader to add and read speaker notes in your PowerPoint presentation. We have tested it with Narrator and JAWS, but it might work with other screen readers as long as they follow common accessibility standards and techniques. Your screen reader reads the comments as you land on them. To close the Comments pane, press Alt+R, P, P. See also. Use a screen reader to add and format text in PowerPoint. Use a screen reader to save your presentation in PowerPoint.