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Why Do (Systematic) Asset Managers Need PhD Economists?

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- Trading vs. investing. Hedge funds vs. asset managers.

- Different investment approach:

  ✓ Discretionary (Blackrock, PIMCO, …)
  ✓ Quantitative (CFM, Two Sigma, …)
  ✓ "Quantamental" (Bridgewater Associates, …)

- Different decision time scales require different skill sets:

  ➢ High-frequency trading
    (ultra fast execution advantage, order book effects, …)
  ➢ Daily to monthly holding periods
    (arbitrage strategies, behavioral effects, corporate actions…)
  ➢ Months to years
    (value investing, risk premia, slow trend-following, …)

- Where do economists fit in?

- What value do economists add?

    - in-depth knowledge of the most recent and previous area-specific research

        - Access to new ideas mass-produced in academia

    - Data analytics skills

        - Experience in handling new data
        - Knowledge of statistics
        - Experience in modeling economic variables

    - Ability to produce a coherent economic doctrine

        - Quants: help interpret the backtest, avoid overfitting
        - Discretionary: articulate the logic, convince clients

- But…

  - Many questions relevant to academicians may not be relevant to practitioners…

    - Some questions are philosophical, not practical
    - Sometimes no time to dig deeply

  - Any pattern in the market is a ***net effect*** of multiple forces. Not all of them may be easily identifiable nor known (yet) to economists.

  - Behavioral patterns may be confusing. It’s ok to have a prior, but you need to be ready to let go of it.

    - Flexibility/pragmatism is critical