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