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Not Even Hedge Fund Managers Think About Alpha at the Altar

Managers' alpha drops around a marriage or divorce, study finds

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Managers are more likely to hold onto losses and realize gains if they are getting married or divorced.

First comes love, then comes alpha - even for hedge fund managers.

A recent study found that hedge fund managers who got married or divorced earned significantly lower fund alpha for several months around those events.

Researchers at the University of Florida and Singapore Management University evaluated the effect of personal events on hedge funds by using monthly net-of-fee returns and assets-under-management data of 15,500 live and 11,261 dead hedge funds reported in Lipper's TASS hedge fund database and datasets from Morningstar, Hedge Fund Research (HFR) and BarclayHedge from January 1990 to December 2012.

They also hand-collected money managers’ marital records, mainly from Lexis-Nexis court record searches supplemented by Internet searches.

The researchers posited that marital events were largely exogenous ones that distracted fund managers from their investment activities. Their results, they said, validated the view that significant life events obstructed success in the finance field.

They showed that during the six-month period around a marriage, hedge fund alpha fell by 8.5% per annum, and during a similar period around a divorce, fund alpha dropped by 7.4% per annum.

They reported that in line with their distraction hypothesis, the effect of marriage was accentuated for busy fund managers running large firms or engaging in high-tempo investment strategies.

The effect of divorce was stronger for fund managers who relied more on interpersonal connections in their professional lives, the researchers said.

They argued that the latter also put greater emphasis on interpersonal relationships in their private lives, and so were affected when their marriages collapsed.

The researchers said that distracted hedge fund managers were not just trading less or mimicking stock indexes more and making fewer active bets. They were making poorer investment decisions, and exercising less investment discipline.

They found that fund managers who were marrying or divorcing tended to be susceptible to what they called the “disposition effect.” These managers were likelier to hold on to their losses and realize their gains during the critical period.

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