Publication: Value Walk
Date: 5 March 2015
Headline: Study Says Marriage and Divorce Both Result In Negative Hedge Fund Performance

Study Says Marriage and Divorce Both Result In Negative Hedge Fund Performance

Marriage leads to lower hedge fund performance than does divorce, but both events negatively impact performance

Posted By: Mark Melin
Posted date: March 05, 2015 10:00:35 AM

A new study confirms age old hedge fund wisdom, showing that a hedge fund manager's divorce can negatively impact fund performance. But where the study really surprised is in noting that marriage can negatively impact fund performance even more.

In 2013 algorithmic hedge fund manager Paul Tudor Jones II noted the impact of divorce on hedge fund performance, echoing a criteria that some in the hedge fund community had been using as a cautionary trigger in their allocation decisions.

Table 1
Distribution of marital events for hedge fund managers

This table reports the distribution of marital events, i.e., marriages and divorces, by state. Divorce rate is the ratio of the number of divorces to the number of marriages within each state. The sample period is from January 1994 to December 2012.

State	Marriage		Divorce		Total		Divorce rate
	Number	Percentage	Number	Percentage	Number	Percentage	
Arizona	0	0.00	2	0.80	2	0.18	n/a
California	215	25.09	80	31.87	295	26.62	0.37
Colorado	38	4.43	0	0.00	38	3.43	0.00
Connecticut	216	25.20	41	16.33	257	23.19	0.19
Florida	144	16.80	68	27.09	212	19.13	0.47
Georgia	33	3.85	9	3.59	42	3.79	0.27
Kentucky	3	0.35	0	0.00	3	0.27	0.00
Nevada	10	1.17	2	0.80	12	1.08	0.20
North Carolina	22	2.57	9	3.59	31	2.80	0.41
Ohio	16	1.87	2	0.80	18	1.62	0.13
Pennsylvania	5	0.58	0	0.00	5	0.45	0.00
Texas	139	16.22	30	11.95	169	15.25	0.22
Virginia	16	1.87	8	3.19	24	2.17	0.50
Total	857	100	251	100	1,108	100	0.31

"One of my No. 1 rules as an investor is as soon as … I find out that a manager is going through divorce, I redeem immediately," Jones was quoted as saying. "Because the emotional distraction that comes from divorce is so overwhelming. … You can automatically subtract 10 to 20 percent from any manager if he is going through divorce." (It should be noted that Jones has also made comments on the impact of a woman giving birth to a child as impacting performance as well, which didn't go over very well in the media.)

Negative performance and marital discord go hand in hand

A recently released study confirms negative returns and marital discord go hand in hand, but it does so with a twist. It shows that marriage has even a more negative impact on hedge fund performance than does divorce. The study, "Limited Attention, Marital Events and Hedge Funds," shows that performance is not only impacted, but is finds marriage has a larger negative impact on performance than does divorce. The study showed hedge fund alpha declining on an annualized basis by 8.50 percent during a marriage and 7.39 percent during a divorce. Researchers Yan Lu and Sugata Ray from the University of Florida teamed with Melvyn Teo from Singapore Management University considered not only marital status on performance, but also age.

Marital status impacts hedge fund performance based on strategy

Not only did the study conclude that marital status can impact hedge fund performance depending on the strategy one implements, but it also noted there is a difference based on liquidity.

The Hedge Funds most impacted by distractive personal events most impact "liquid, higher tempo strategies such as macro and managed futures that trade frequently have less time and energy to cope with marriage." Those strategies that are illiquid, lower tempo strategies such as distressed debt and equity long/short funds that arbitrage long-term price dislocations, "have more time and energy to contend with marriage," the report observed.

Table 3
Univariate analysis of hedge fund manager marital events

This table reports univariate analysis of hedge fund performance and risk around the marriage and divorce event windows. Fund performance metrics analyzed include raw returns and Fung and Hsieh (2004) seven-factor alphas. Total risk is the standard deviation of raw returns while the idiosyncratic risk is the residual from the factor regressions. The event window is the period spanning three months before and three months after the marriage/divorce date. The period "before" is 21 months before the event window and the period "after" is 21 months after the event window. Panels A reports results for marriage, while Panel B reports results for divorce. The sample period is from January 1994 to December 2012. * Significant at the 10% level; ** Significant at the 5% level; *** Significant at the 1% level.

	Before	Event	After	After-Before	Event-Before	Event-After
Panel A: Marriage						
Return	0.984	0.723	0.979	-0.005	-0.261*	-0.256
Alpha	1.023	0.598	0.760	-0.263***	-0.425***	-0.162
Flow	2.138	2.628	5.744	3.606**	0.490	-3.116
Risk	3.537	3.198	3.149	-0.388*	-0.339	0.049
Idiosyncratic risk	2.758	2.525	2.264	-0.494***	-0.233	0.261
Panel B: Divorce						
Return	0.878	0.517	0.803	-0.075	-0.361*	-0.286
Alpha	0.750	0.101	0.559	-0.191*	-0.649***	-0.458***
Flow	4.966	5.349	5.474	0.508	0.383	-0.125
Risk	2.990	2.845	2.823	-0.167	-0.145	0.022
Idiosyncratic risk	2.049	1.851	1.847	-0.202	-0.198	0.004

Age also plays a role in performance, with performance of older fund managers less influenced by their marital status than that of younger traders who are “presumably more emotional” about their relationships.

“Hedge fund industry is an interesting laboratory for investigating the impact of limited attention as the complex and dynamic trading strategies that hedge fund managers employ often impose extraordinary demands on a fund manager’s time,” the study concluded.

Distraction is part of a growing hedge fund manager’s live, as they are often side-tracked by capital raising activities, media interviews, speaking at hedge fund conferences and capital introduction and investor events. Compounding matters, hedge fund managers might find it increasingly difficult to concentrate on her investment duties given the day-to-day demands associated with running a large asset management firm. This is particularly the case with a firm where the hedge fund manager does not delegate duties to a team or may run several different strategies.

Hedge fund performance: Its all about focus

In the end it boils down to focus. Some hedge fund managers actively work to sharpen their ability to think clearly under stressful circumstances with limited time in a day. This includes Ray Dalio of Bridgewater Associates and Michael Novogratz of Fortress, both of whom turned to meditation. Other large hedge fund managers are known to have a method of filtering information and trying to keep their personal lives as simple as possible so as not to impact performance.

The issue hedge fund investors should monitor is the impact the extraneous personal events can have on the strategy and performance. It is a given marital status will impact a fund manager on a personal level, but do they have the team in place, do they have systems that can continue to smoothly operate in the case of key man loss. That logic applies not only to marital status, but is part of a larger key man impact analysis on hedge fund performance.