

Perspective

Where Investors Get It Wrong: An Open Letter

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While it is impossible in a short synopsis to convey all the pros and cons of hedge fund research, I once again will try to tilt at a windmill. Why now? I recently was asked to respond to a book which promoted the belief that hedge funds provided no real benefit to the average investor over the past decade. I was surprised to read many of the misconceptions held by the author as well as those misconceptions in many of the articles cited by the author. While I have been counseled by others that attempting to respond to every issue in finance that I disagree with is a waste of time, I felt this would be a good time as any to remind individuals of some of the basic problems and misconceptions in hedge fund research.

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Where Investors Get It Wrong: An Open Letter

Introduction

The purpose of this “open letter” is to summarize several of the major points presented at a series of seminars and conferences offered by a research center I headed over the past ten years. Not everyone will agree with the questions or the content, however, the issues are real and offer in many cases an alternative look at research conducted in the industry.

Before getting into several of the specifics, we all should be reminded that:

- 1) The past twenty years is a sample of one and that one should not use the historical performance of the last twenty years as a simple case for/or against investment in any investment strategy (if it were so no money should be invested in Japan equity markets) or as a simple forecast of how a market will perform in current market conditions. At the end, every portfolio results from a set of decisions (discretionary or systematic (algorithmic)) – even the discretionary process often has a systematic element to them). The resulting portfolio is a collection of assets, and that collection of assets will make money in some market conditions and lose money in others. I never invested in a manager who could not simply tell me the basis for the construction of his current portfolio (and if that construction process differed from the past) and in what market conditions his current portfolio would lose money even if it never lost it in the past (just because it never happened does not mean it will not just because it did does not mean it will in the current environment).
- 2) Similarly, one of the primary problems in academic and practitioner research is that they are primarily historical presentations that often tell us little as to solutions for current problems. Articles published in 2011 were often written in 2008 based on data ending in 2006. In short academic research is often five years out of date when it is published. In a recent article forthcoming in a major financial journal the article states “Indeed, more recent studies provide a more skeptical view of hedge fund returns, finding smaller and only sporadic alpha (e.g., Fung et. al., 2008; Naik et. al, 2007) or no outperformance at all (e.g., Amin and Kat, Aragon, 2007; Griffin and HX, 2009).” Recently, the results are often ten years out of date with outdated definitions of alpha (excess return on a set of noninvestible factors is not alpha) or outdated methodology (e.g., simple cross sectional tests). When I see a reference to one of my articles, I have to wonder if the new author has really read it or if it has any relevance to today’s data (For years I remained surprised at individuals who looked at market volume in the equity markets as indicative of informational moves in a world in which market volume is today impacted by risk management moves, high frequency trading – yet there I see references to the old articles (fine for their time but now of little direct relevance to today’s market)).

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- 3) Use of index versus fund data as indicative of fundamental market relationships.
Composite hedge fund indices may offer little as to the actual or expected performance of any individual investor. The hedge fund industry has evolved dramatically over the past twenty years. While discussed in greater detail later in this presentation, focusing on the returns of a composite index for which the underlying strategies and investment in those strategies have changed dramatically offers little evidence as to the underlying benefits of the “universe of hedge funds” over time except under the most restrictive of assumptions as to investor behavior and investment. Remember, the composite index returns of the 1990’s reflects the returns primarily of CTAs and Global Macro. The Composite index returns for the last ten years reflect the primarily Equity Long Short products. ONE CANNOT – SHOULD NOT use historical composite returns to provide an estimate of the current benefit of hedge funds as illustrated in today’s Composite Index.
- 4) As a corollary to 3, remember hedge fund indices reflect the performance of a “non-investible portfolio of hedge fund strategies”. An equally weighted index assumes that the investor holds a hedge fund portfolio which reflects the number of reporting funds, and that the investor can rebalance monthly. An asset weighted index assumes that the investor holds a hedge fund portfolio weighted to reflect the AUM of the underlying managers and can adjust his/her portfolio to match incoming cash flows to each strategy. There is no single investor who can meet the above. What composite hedge fund indices do provide is an estimate of a “composite return” to a wide range of strategies within the hedge fund industry at a particular point in time. Individual funds will reflect the returns of the composite index only to the extent that the fund of funds or the manager’s strategy reflects the composition of the historically derived hedge fund composite index.
- 5) Individual strategy based indices provide indices which more closely reflect the actual performance of a particular focused fund of funds or hedge fund and may provide a more realistic portrayal of expected rates of return and risks across an array of market environments. However, even in this case, individual strategy indices are a mix of this and that (onshore versus offshore, value weighted versus growth based ELS...). In short indices do not reflect individual performance at the sub strategy level. In the future, sub-indices need to be created which provide a clearer focus on a particular asset selection process. What is necessary is to understand the conditional factors driving individual hedge fund strategies and to ensure that particular hedge fund strategies returns are consistent with the historical factors (e.g., ELS managers generally make money in up equity markets and Distressed Security hedge fund managers perform well in declining credit spread conditions.)
- 6) As important, one should not look solely at returns of the entire industry as reflecting the pros and cons of the entire industry or that of an average investor. A wide range of individuals/institutions hold a wide range of hedge fund strategies for a wide range of reasons (regulatory constraints, industry standards). Given the varying risk exposures of any individual investor, the benefits of hedge funds in general or a strategy in particular are investor specific. Hedge funds are often held as part of a larger portfolio most of it illiquid (job, home equity). The generic approach of risk adjustment tells little if a particular hedge fund or strategy adds value after consideration for proper risk

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control basis. Similarly, looking over a past period of superior bond returns (falling bond yields) tells us nothing about how a portfolio of stocks, bonds, and hedge funds may be created and benefit investors on an ex-ante basis in a forecasted period of increasing interest rates.

- 7) The form of the return estimation should be consistent with the analysis conducted. If one is using monthly data to create a portfolio which is designed to reflect the actual historical conditions or to test the conditional impact of market factors on hedge fund return then the use of monthly rates of return is generally recommended. If one attempts to estimate the return by which a \$1 investment grows to its final value over a period of time, then a geometric rate of return is often used. If one wishes to reflect an investor's individual the changing investment level over time, an IIR return (with a host of assumptions as to the reinvestment rate) is of recommended (although the weighted risk assessment requires a different form of return measurement.)
- 8) In measuring the impact of fees on investor performance, one must be careful to ensure that one is measuring the 'investor's' net return or net profit. The difference between gross return and net return is of course the return to the investment manager. That manager's return, however, is not gross profit. That profit resulting from manager's fees is similar to a corporate firm's total revenue. From that revenue the fund manager must pay a range of management, operational ... costs. While difficult to estimate for most managers, net manager profit is only a percentage of gross industry profit (however poorly measured). In short, in comparing investor net profit (returns on investment) with manager profit one must compare net with net and not net with gross.

One could go on and on but let me make it clear that I do not regard as a requirement of investing in hedge funds empirical results that indicate that all hedge fund managers or hedge fund strategies must provide evidence of positive "excess return" across all market environments. We simply do not have, at this time, the data or the methodology available to determine the final 'true risk adjusted' benefits to any investment strategy. For the most part, hedge funds, with some managers and strategies better than others, offer the ability to provide unique expected return and risk characteristics not easily available in many other investments especially in certain market conditions. One cannot and should not ask for more. For a further discussion of other myths involved in hedge funds readers are directed to other issues in alternative investment research to Myths of Alternative Investments (2012).

To return to the reasons for starting this letter (recent research in hedge fund research that is starting to become accepted wisdom when in fact it is far from that) and before detailing several of my concerns I wish to emphasize that the following comments are mine alone and do not represent any of the organizations for which I have been or am now associated. Among my associates we discuss these issues daily. Through time one cannot be consistent without being a hypocrite unless one learns little. I am sure that by the time this is published that I will have already changed my view of some of what is contained herein. However, I do believe that there are numerous misrepresentations of the hedge fund industry both by its proponents as well as its critiques. The industry is an evolving process and explaining its current role in the investment industry should be everyone's goal – but unfortunately while we live in the current. I have a bias

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against any research which focuses on a past which does not reflect the current conditions (for example, we now live in an age where a range of commodities are available 12 months a year yet I see research discussing the seasonal nature in certain commodities based on past data which has no relevance to today market conditions.).. In short, we often refer to the past while not emphasizing how it has changed— In a switch on the comment of George Santayana - one should remember those who only live in the past are plagued to repeat it (or miss the benefits of the future).

Use Of Qualitative Data in Hedge Fund Data

If one is to address issues in hedge fund research perhaps the easiest place to start is simply issues related to the quality of the data often used by researchers. Each of the primary data bases used by hedge fund researchers has its own history (The CISDM data base is perhaps the oldest with its origination as the MAR Data base in the early 1990's. In the Mid 1990's the HFR and Barclay data bases were started and by 2000 CSFB had purchased the smaller TASS data base and added funds to it as it ramped up is hedge fund business (note most of the funds already reported to the other data basis and research which removes of many of these funds as backfill results in a set of funds which misrepresent the industry during that period). In the early part of the 2000, I became directly involved with the development of a major hedge fund platform. One of our first projects was purchasing and combining all the major data bases of the time (HFR, CISDM, Barclay, CSFB, Altvest, Cogent). We even hired an auditing firm to check the quality of the data. They soon came back that for each of the databases the qualitative data could often not be verified (even the return data often had concerns). What we learned at that time and over the years is “No Firm” makes enough money on data bases to make sure that are correct. Managers may or may not put data in and most often will never change it – Data based firms do not generally have the time or the resources to check the quality of the data. So, what you may ask: A few examples may provide some clarity:

- 1) AUM based data: It is well known that industry AUM data provided by most major index providers is merely a back of the envelop estimate (we have no real idea of the total amount managed in the industry). What is less known is that the monthly AUM data in most data bases has numerous problems that make any research (e.g., fund flows reaction to historical returns, IIR measurement problematic). For instance, a review of the CISDM and CSFB databases (2010) showed that in any one month for the period 2008-2010 between 10 and 20% of the funds reported the same AUM. Imagine research in which up to 20% of the data in any one month is faulty but we continue to conduct research using fund AUM as if all is OK.
- 2) Other Qualitative Assumptions: Almost all other qualitative data has similar defects. For example, in almost any data base I check (year 2010) only 80% of the funds who report AUM in \$ report that they have a listed auditor. Does any researcher really believe that 20% of dollar denominated hedge funds do not have an auditor? Of course not – but research crosses my desk from researchers who consider funds who do not report an auditor as assumed not to have one. Their response – it is not my responsibility to check the data. May be not to check, but to put a BIG qualifier in the first footnote as to possible biases in one's results as a result of the problems in the qualitative data.

- 3) “CONTINUITY BIAS”: Whatever the defects in Qualitative Data the biggest is the “Continuity Bias”; that is, we use a current data base with current listed qualitative data. If one does not have a yearly record of the data base almost all and I mean all researchers assume that the Qualitative Data reported in the most recent data base was the same in all previous years (including performance fees, leverage, redemption restrictions.....). A brief analysis of data bases in 2002 and 2010 for a common set of funds, indicates a number of changes – however, I have no idea if the number of changes reflects either too little or too many. What I do know is that the Qualitative data of 2010 may not have any relationship to the Qualitative data of 2002 and certainly earlier. To make that assumption can drastically impact empirical results.

Return Based Data

Given the problems in qualitative based research, it is not surprising that most researchers concentrate on return based research. Unfortunately, each data base has different reporting funds and classifies those funds differently. A classic example is the inclusion of Madoff feeder funds in the CSFB data base but not in the CISDM data base. In 2008, the CSFB market neutral index reported a 40% drop in value. Research which concentrated on the CSFB data base market neutral has differential results. Similar problems exist with the CSFB data base, pre 2000. Recent research has shown that prior to 2000, the CSFB data base was sparsely populated prior to the purchase of the TASS data based and the new number of funds registered on CSFB. However, many researchers have removed certain funds from the CSFB data base as backfill fund due to their listing on the CSFB data base after 1999-2000 period. That data is not true backfill since the funds were included on most of the other current data basis (Altvest, Cogent Hedge, CISDM, Barclay). In fact, I would recommend that all research on data prior to 2000 be stopped unless one has a full set of funds which truly track the universe. In fact, recent research (Schneeweis et. al, 2011, 2012) has indicated that the content of funds prior and after the year 2000 is so different as to make cross-sectional research except at the strategy level meaningless.

Another concern with the current data is that it contains monthly data. A host of research is simply not conducive to the use of monthly data including tests of first order autocorrelation and fund return persistency.... Research (see What a Difference a Day Makes, (Schneeweis and Szado, 2010) has shown that statistical patterns that exist in monthly data is not seen in daily data or is susceptible to a single data point. In short, researchers beware in the use of monthly data to capture short term (daily) management issues or informational response.

How do Hedge Funds Act

Whatever the defects in qualitative and quantitative data, perhaps the biggest problem is in the simple inaccuracies in understanding how hedge funds strategies act. I remember a top journal published article which one conducted a study of the determinants of Japanese Convertible Bond Arbitrage and for which a major finding was that a credit spread variable existed for U.S. Convertible Bond Arbitrage but not for Japanese. I friend of mine called and said – How is this

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research. In Japan at that time, the chance of a corporate bond default was nil. No Japanese bond responded to traditional credit spread variables. Other examples exist. A recent study I saw used emerging market indices to capture the returns of a set of global macro funds without considering that today (depending on the data base) many global macro funds are CTAs in HF clothing. (What was he or the reviewer thinking). Another case, a research regressed CTAs on a set of common market factors and found that the betas of the common market factors did not change over time concluding that the CTA was not an active trader – WHAT – the lack of change in the betas the market factors was that the R square of the regression was so poor and the market factors so irrelevant that no significant changes happened. As a contrast he ran an ELS on the same factors and saw many changes in beta coefficients and reported an ELS manager as extremely active when in fact the ELS manager never changes holdings it is just the market factors that changed (e.g., the S&P 500 went from an energy bias index to a tech index). PLEASE BEFORE WRITING ABOUT A STRATEGY TALK TO SOMEONE WHO TRADES IT. THEY MAKE MORE MONEY DOING THIS THAN YOU DO AND PROBABLY UNDERSTAND THE STRATEGY BETTER THAN YOU.

A further example of academics misunderstanding the hedge fund industry is the number of researchers who quote the uniqueness of hedge fund managers as having complete discretion over whether to accept new capital from clients and have control over the optimal timing of money into and out of their strategies. In short hedge fund managers are market timers. (OK some research in the early 2000 did indicate that hedge funds listed as market timers made excess return (the reason they made money is not that they were market timers but were part of the great foreign/U.S. pricing scam and in fact only listed themselves as market timers.)

The problem reminds me of the Charles Dicken's "Oliver Twist" in which a judge criticizes a man for actions taken by his wife. The man replies to the judge, that the Law may be well and good, but it does not know my wife. Hedge fund managers, as it is known have many restrictions on money coming in and out (note: offshore differs from on shore if for no other reason that one can market funds differently in Europe than in the U.S. – also all research on fund flows and AUM related to past return performance note) but regardless of that – hedge fund managers would never – I repeat never let individuals come and go out of a fund or accept or not accept funds in the frequency assumed in past research.

I remain amazed at the simple statement that changes in real AUM are due to investor's chasing return. While past return is of significance, we have a limited set of economic cycles and strategy development to provide a definitive basis for what drives investment into individual strategies or managers. Given the lag in hedge fund return reporting, the difficulty in accessing certain managers or funds and the importance of prime brokers and institutional capital introduction groups in the AUM raising process I have always looked at many of AUM raising and return persistence studies with an "Oliver Twist" smile.

In six years as a fund of fund manager of 80 hedge funds what I really was an individual who managed lines of credit. When an investor left (and if they left we never let them back in unless they had a lot of money) or when a sales agent I had given an AUM level came with clients I had to say yes or lose him as a sales agent. Whatever the case, I and the managers under me did not

have the ability to quickly change the asset mix of the portfolio for investor liquidity purposes or from past return. What I was, was not a manager of managers but a manager of credit lines so I could pay out to an investor without changing the actual funds allocated to various managers and more importantly, beware the manager who dramatically changed his/her strategy (an ELS technology manager better remain an ELS technology manager). Except in a few strategies, where the idea of most hedge fund managers having the ability to dramatically change strategies or holdings came from, I do not understand?

Hedge Fund Pricing

Of course, one of the reasons I could handle lines of credit was that most of the managers had positions at various acceptable prime brokers. Since I dealt primarily with managed accounts I was able to limit the existence of side pockets. Except for side pockets, I am tired and mean “sick and tired” of hearing how managers self-manage the pricing of their portfolios. While some intermonth valuation issues may exist on some very illiquid bonds for which self-pricing would be permitted for a few days, any reasonable asset manager requires the portfolio to be priced externally and even fair valued depending on the external client. I know the pricing issue makes great theater but for most equity based hedge fund strategies it is really bad facts.

Hedge Fund Factors: Hedge Funds as Absolute Return Vehicles

Hedge funds are sometimes described as absolute return strategies which are not correlated with traditional stock and bond markets. However, while some individuals may still present hedge funds using this “outdated concept”, today the accepted knowledge as to source and return process of hedge funds is more evolved. While the sources of hedge fund returns are often described as being based on the unique skill or strategy of the trader, for the past 15 years academic research (Fung and Hsieh, 2002), (Schneeweis et al, 1998, 2003, 2010) has demonstrated that hedge fund strategy returns are also driven systematically by market factors such as changes in credit spreads or market volatility which are directly related to the longer term fundamental security holdings of the hedge fund rather than exclusively by an individual manager’s alpha. Therefore, one can think of hedge fund returns as a combination of manager skill and an underlying return to the hedge fund strategy or investment style itself. In fact, similar to the equity and bond markets, passive security-based indices have been created which are designed to capture the underlying return to the hedge fund strategy (Schneeweis, Kazemi and Karavas, 2003, Jaeger and Wagner, 2005, Schneeweis, Kazemi and Crowder, 2010). The performance of an individual manager can be measured relative to that ‘strategy’ return. If a manager’s performance is measured relative to the passive security-based hedge fund index/benchmark, then the differential return may be viewed as the manager’s ‘alpha’ (return in excess of a similar non manager based investable replicate portfolio). If a manager’s performance is measured relative to an index of other active managers, then the manager’s relative performance simply measures the over or under performance to that index of manager returns. In short, today one does not refer to hedge fund returns being compared to a simple equity or bond index or the risk free rate. We have moved on.

Hedge Fund Return: Digging into the Numbers

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As discussed earlier there are various reasons for using different measures of return. Recently, IIR has been suggested and when used assumes a low benefit of hedge funds. As we have pointed out This may be testable if one had a data base which actually captured all hedge funds and for which reported AUM which reflects true AUM and if one would concentrate on relatively small periods of investment for which the number of investors remained constant and were commonly exposed to a set of strategies. In fact, the AUM estimated at the industry or strategy levels are just that – estimates. Even the AUM reported in most data bases have a number of issues (an analysis of two of the largest data basis (CSFB/Tremont and CISDM/Morningstar indicates that in any one month between 10 and 20% of firms report the same AUM in consecutive months – In short fund reported AUM most likely does not reflect true AUM, (Schneeweis and Szado, 2012). Moreover, it has been reported that the largest hedge fund managers fail to report to most hedge fund data sets. In short, current hedge fund data and especially AUM data is so flawed that it simply prevents any individual from using that data to estimate AUM industry effects for any one month, year or decade.

One would not normally raise this issue but data bases do matter. Whatever the case, when one uses index returns which are more reflective of those reported in other indices, the IIR of the return over the period of analysis is dependent on the index used. For example, the IIR of the CSFB Asset Weighted Hedge Fund index recreated to reflect asset weighted returns an IIR of nearly 7% which is similar to its geometric return over the same time period. In contrast, the IIR for the HFRX Global index differs from its geometric return (6%) over the same time period. The difference between the IIR based returns and the geometric returns is due in part to different patterns in the reported returns and listed AUM. One must be careful that the data base and return patterns used reflect true market data. For example, a data base which reflects the Asset Weighted CSFB Composite index may have a different result than one which reflects the HFRX Global Hedge Fund index).

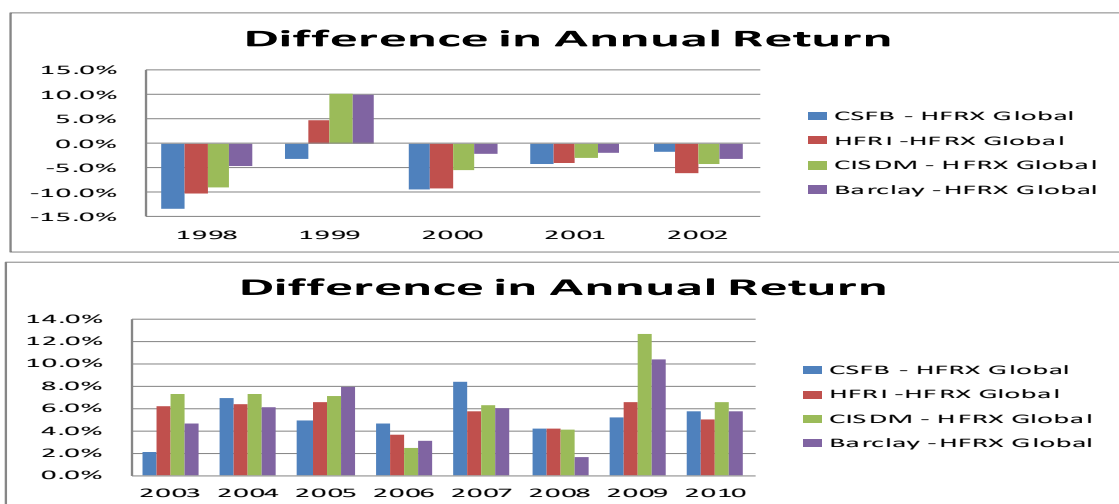
HFRX Global HF Index					IIR
Average AUM					2%
1999	143	1998	13%	(143.00)	
1999	189	1999	27%	(7.88)	
2000	237	2000	14%	(20.99)	
2000	322	2001	9%	(64.45)	
2000	505	2002	5%	(167.61)	
2000	828	2003	13%	(253.42)	
2000	1229	2004	3%	(380.78)	
2000	1361	2005	9%	(588.58)	
2000	1713	2006	9%	(225.02)	
2000	2137	2007	4%	(351.60)	
2000	1458	2008	-23%	182.11	
2000	1554	2009	13%	99.32	
2000	1694	2010	5%	1,634.67	
CSFB/Tremont Hedge Fund Index					7%
1999	143	1998	0%	(143.00)	
1999	189	1999	23%	(12.50)	
2000	237	2000	5%	(38.84)	
2000	322	2001	4%	(74.53)	
2000	505	2002	3%	(173.20)	
2000	828	2003	15%	(243.01)	
2000	1229	2004	10%	(323.36)	
2000	1361	2005	5%	(38.50)	
2000	1713	2006	14%	(183.30)	
2000	2137	2007	13%	(208.64)	
2000	1458	2008	-19%	271.42	
2000	1554	2009	19%	174.77	
2000	1694	2010	11%	1,724.15	

Moreover, if one is concerned with the ability of hedge funds to provide benefits to the average investor and if you believe that results which do not consider AUM differences by year which considers this AUM impact, why not simply provide results on a year by year basis. Rather than assuming some “contrived” investor investment process, a more direct method is simply to look at each year with dramatic AUM differences. Of course, direct performance comparison may still leave questions as to the potential benefit of hedge funds to the average investor in periods of high AUM. The results in the following exhibit show the relative

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Information Ratios of an equal weighted stock and bond portfolio to that of a stock and bond portfolio with a 20% investment in a range of Global and EW HFR based portfolios. Again, the results show that for the past 13 years the inclusion of HF (AUM based or EW based) provided return and risk benefits to “average investors” in every year of analysis using the most basic of comparisons (information ratio). (In years in which the portfolio return was negative information ratio comparison is not relevant – however in those years further analysis shows that the addition of hedge funds to an equal weighted stock and bond portfolio lowered risk in all cases and increased return in most).

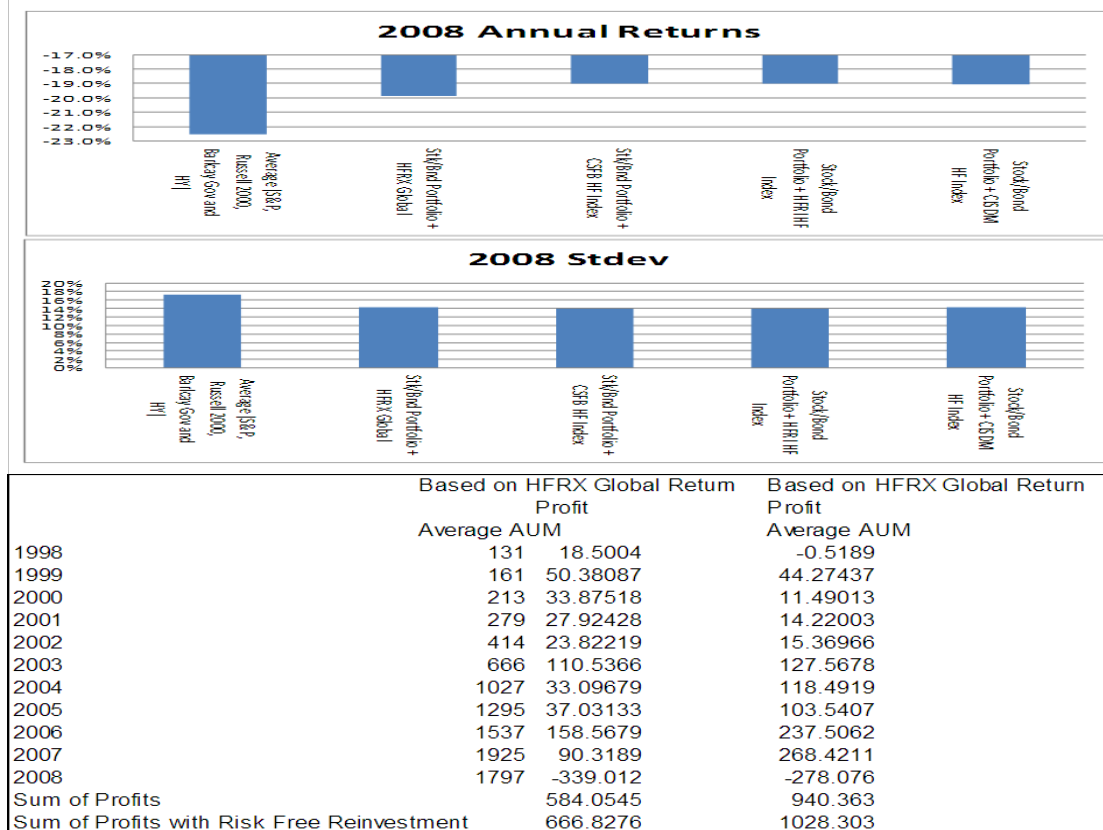
	Average AUM	Stk/Bnd Portfolio + HFRX Global	Stk/Bnd Portfolio + CSFB HF Index	Stock/Bond Portfolio + HFRI HF Index	Stock/Bond Portfolio + CISDM HF Index
1998	131	0.03	0.02	0.01	0.18
1999	161	0.22	0.47	0.60	0.34
2000	213	0.22	0.21	0.29	0.40
2001	279	0.28	0.26	0.25	0.32
2002	414				
2003	666	0.62	0.76	0.62	0.36
2004	1027	0.35	0.32	0.26	(0.04)
2005	1295	0.28	0.38	0.36	0.08
2006	1537	0.53	0.47	0.34	0.25
2007	1925	0.57	0.51	0.52	0.29
2008	1797				
2009	1506	0.60	0.58	0.61	0.32
2010	1624	0.33	0.26	0.27	0.12



Profits Versus Returns: 2008 As A Special Year:

Researchers often spend considerable time focusing on 2008 as an example of the HF market negatively impacting investor returns to an extent that any previous profits are meaningless. 2008 was a dramatic market for all investors however results show that even in 2008 the addition of HF increased return and reduced risk relative to a stock and bond only portfolio. In addition, if one makes basic assumptions as to investor choices past HF profits would have exceeded losses in 2008.

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Indices as Representative of Investor Return and Manager Profits

Many researchers continue to use indices to capture return characteristics. The index used has implications on results. For example as indicated the use of HF indices in analysis must be done with care. Researchers often mention that poorly performing managers may not report and thus any index may overestimate returns (of course overperforming managers that are closed may also not report so the final results are unknown). For example, there is plenty academic research on the impact of certain indices due to their use of backfill bias (e.g., fill in old returns when they are finally reported)... Yet I see research which states that “none of the indices referred to in this book have been modified to reflect survivor bias or backfill bias so overstatement of returns in those indices remains.” Note Please NOTE – the primary hedge fund indices (HFR, Barclay... (NOT HFRX)...) simply report averages of reporting managers (some with restrictions such as least two years of history before reporting to lessen new firm affects). They have selection bias but no – I repeat no backfill bias in the traditional sense – As for the S&P 500 once a firm’s return is included it never leaves – if a new firm is added its old returns are not added and the index is not revised. Only for a new data base for which a historical index is created or for a data base for which the initial sample of firms is so small as to not reflect the industry return does an index have backfill bias. (Dead firms are also not removed so traditional survivor bias (the removal of dead firms from a data base is also not a problem in most hedge fund indices).

Note hedge fund indices returns may differ for a range of construction and fund selection issues but Please GET IT Right as to the basis for these differences.

Performance Fee and Fund Performance

Researchers often attempt to place one of the major concerns as to his assertion of poor average investor performance (incorrect as shown above) to the performance fees of managers. As to the relative extent of manager profit versus investor profit academic research has often pointed out that the markets are not efficient at the gross level since the difference between total manager profits and investor profits reflects a set of fees to cover business expense and return to skill. Skilled managers may have higher fund fees than another manager but the net returns to each investor may be the same. Researchers note: Fund fees do not mean Fund Net Profits. Each industry and fund have different management, research and sales costs. Two firms with the same fee structure can have dramatically different profitability. Moreover, attempts to ferret out the annual profits to managers within the industry – again without any direct knowledge of the drawdowns etc. Of individual strategies or managers such as analysis is “a whistle in the dark”.

How To Measure “Alpha”

There is nothing new here. Many other researchers have pointed out that referring a differential return between a fund and a set of non-investible factors (S&P 500, MSCI...) or without using an investible form of those factors including the costs of rebalancing etc. provides only as estimate of excess returns relative to the assumed comparison return model. NOTE: THE DIFFERENCE IS NOT ALPHA as most practitioners, or “some” academics view it but as a positive ‘properly estimated’ risk adjusted return. If one is to use alpha in your presentation by regressing strategy return against noninvestible market factors please footnote that it is not alpha (Note this also is true for stock and bond research also). Also, as in some recent analysis to not compare simple profit patterns over time without acknowledgement of the alternative investment processes. Some analyses have attempted to compare losses in one year as indicative of the changing nature of hedge fund returns and the lack of excess return. Strategies and opportunities change. I have no problem with stating that certain strategies that provided “abnormal return” such as going short mortgages in 2006 may have a limited opportunity set today. What then is of interest is how and why can the ‘non –benchmark’ driven process of private pools of capital financing new strategies or investment opportunities rather than providing what should be common place knowledge that as more money moves into a strategy it is possible (although non necessary since as more money comes into a strategy the cost of trading may fall and the proper valuation of assets may rise) that the excess return opportunities may decline.

Future of Hedge Fund Research

I have gone on long enough. As schools attempt to develop new educational areas to attract students many look to alternative investments as an area of interest. As the co-founder of the CAIA - the most significant global professional designation in the industry - I realize the importance of education in alternative investments. The above discussion illustrates where academic/practitioners may have gotten it wrong and illustrates the potential need for academics or practitioners to take the time to learn about the subject. I hope the above will drive a few of you to consider the CAIA program. It is not that mistakes will not be made as markets change but I can guarantee you will have help in understanding those changes.

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TRS Associates: Perspective

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He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance as well as Director of Research at Urso Capital, LLC which managed an approximately \$4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately \$1 billion commodity-based investment firm (Alternative Investment Analytics). For over forty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

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Perspective

Hedge Funds: Where the Press Gets It Wrong (and Right)

Thomas Schneeweis

June 2016

Is there any place the Press got it right? Yes. The hedge fund portfolios of most institutional and individual portfolios generally do not outperform equity markets on an absolute basis, but note and note again they generally should not.

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TRS Associates: Perspective

Hedge Funds: Where the Press Gets It Wrong (and Right)

Years ago, a well-known academic, investment professional and Nobel Prize winner told me never to waste my time criticizing those who published articles that I knew to be wrong. “Why waste your time” he said, “It is the old saying of trying to teach a pig how to sing. It is a waste of your time and it annoys the pig”. Some would say I never listen. So here it goes. In recent weeks, there have been a number of articles suggesting that hedge fund investment is a poor choice for both institutional investors and individuals alike. The reason is simple. Hedge funds have not performed up to expectations and the related costs (internal (fees and due diligence) and external (public perception) are not worth the effort of investing in them.

For purposes of total transparency, I should inform readers that as an academic I have written a number of articles on the pros and cons of hedge fund investment. In addition, as a practitioner I have been Director of Research of an approximately \$3.5 billion dollar hedge fund managed account platform and I have been President of a firm which has managed both an equity long short hedge fund, a managed futures fund and a commodity based product. Lastly, I was instrumental in creating the Chartered Alternative Investment Analyst Program. I am pointing this out, not to bring up past accomplishments but only to point out that unlike some authors (academic and practitioner) I may have actually had some experience in the area of hedge fund investment. So please note the following:

1. Hedge funds are not a single investment strategy, they are a legal investment structure that permits the creation of private pools of capital for certain types of investors (generally institutional and accredited individuals) and which are permitted under SEC

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rules and regulations not to be required to meet some of the restrictions of more general investment structures (e.g., mutual funds, ...).

2. Again, hedge funds are not a single investment strategy. They are a series of investment strategies where the legal rules and regulations on leverage, liquidity, and fee structure, ... often makes managed accounts and private pools of capital suitable for certain investment trading approaches which may be less liquid (distressed debt, convertible arbitrage), may require leverage (CTAs and most arbitrage strategies (e.g., market neutral equity, fixed income arbitrage, merger arbitrage) and may require discretionary trading such that they are often not linked to a long only investment benchmark (e.g., equity long short, global macro and CTAs). Given the breadth of various hedge fund strategies and that strategy each has their own unique risk and return characteristics and the fact that there exists no one type, one size fits all investment benchmark for hedge funds, hedge fund performance should never, **again should never**, be compared on a standalone basis with a single traditional equity benchmark such as the S&P 500.
3. The potential benefits of a hedge fund strategy (or better a portfolio of managers within a hedge fund strategy) would be considered as its marginal benefit to an existing portfolio (e.g., stock and bond portfolio) – Again this is Investment 101 – An asset's potential benefit to an addition to a portfolio depends primarily on its marginal return to risk tradeoff relative to the existing portfolio; that is, its relative Sharpe ratio, (return to risk) and its correlation to the existing portfolio. It can be measured by its breakeven return (see Schneeweis et. al., The New Science of Asset Allocation, John Wiley, 2010, page 45).

Now never do this; that is what I am about to do. I am going to use historical data to prove a point. Why? Because the historical past may not reflect the expected future returns or risks of current investment strategies. Still we continue to do it and the following Table's results are based on the historical returns of a series of traditional set of investments (S&P 500, Barclay Aggregate Bond Index, an equal weighted portfolio of the S&P 500 and the Barclays Aggregate Bond index) and a series of CISDM hedge fund indices (equal weighted portfolios of reporting hedge fund managers).

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					EW CISDM HF	CISDM Equity Market	CISDM Convertible Arbitrage	CISDM Event Driven Multi-Str	CISDM Merger Arbitrage	CISDM Distressed Securities	CISDM Equity Long/Short	CISDM Global Macro
					Indices	Neutral USD	USD	USD	USD	USD	USD	USD
2001-2013	S&P 500	BarCap U.S. Aggregate	Equal Weights SP500 and BarCap	.90 EW SP500 and BarCap Agg. Port. And .10 EW CISDM HF Indices	6.53%	5.43%	7.14%	7.25%	5.00%	9.13%	6.00%	5.50%
Annualized Return	4.65%	5.24%	5.30%	5.44%	3.76%	1.95%	5.84%	5.85%	2.86%	5.57%	6.05%	3.19%
Annualized Stdev	15.54%	3.60%	7.78%	7.29%	1.17	1.69	0.86	0.88	1.01	1.26	0.64	1.06
Sharpe Ratio	0.16	0.87	0.41	0.46	-11.93%	-2.79%	-22.47%	-20.19%	-5.65%	-21.22%	-17.21%	-2.60%
Maximum Drawdown	-50.95%	-3.83%	-27.11%	-25.53%	0.74	0.49	0.53	0.74	0.62	0.65	0.77	0.33
Correlation With EW STK/Bond Port.					3.3%	2.5%	3.4%	3.9%	2.8%	3.6%	4.0%	2.5%
Breakeven Return												
					EW CISDM HF	CISDM Equity Market	CISDM Convertible Arbitrage	CISDM Event Driven Multi-Str	CISDM Merger Arbitrage	CISDM Distressed Securities	CISDM Equity Long/Short	CISDM Global Macro
					Indices	Neutral USD	USD	USD	USD	USD	USD	USD
2008	S&P 500	BarCap U.S. Aggregate	Equal Weights SP500 and BarCap	.90 EW SP500 and BarCap Agg. Port. And .10 EW CISDM HF Indices	-10.02%	0.61%	-19.11%	-19.04%	0.09%	-19.54%	-14.43%	3.71%
Annualized Return	-37.00%	5.24%	-17.94%	-17.16%	6.96%	3.00%	14.35%	10.62%	5.57%	10.99%	8.58%	2.43%
Annualized Stdev	21.02%	6.09%	11.91%	11.33%	-11.17%	-2.79%	-22.12%	-19.04%	-4.87%	-19.75%	-15.27%	-1.40%
Maximum Drawdown	-37.66%	-3.83%	-19.86%	-19.00%	0.86	0.36	0.84	0.83	0.86	0.84	0.69	0.03
Correlation With EW STK/Bond Port.												
Breakeven Return												
					EW CISDM HF	CISDM Equity Market	CISDM Convertible Arbitrage	CISDM Event Driven Multi-Str	CISDM Merger Arbitrage	CISDM Distressed Securities	CISDM Equity Long/Short	CISDM Global Macro
					Indices	Neutral USD	USD	USD	USD	USD	USD	USD
2013	S&P 500	BarCap U.S. Aggregate	Equal Weights SP500 and BarCap	.90 EW SP500 and BarCap Agg. Port. And .10 EW CISDM HF Indices	8.25%	6.02%	7.54%	13.29%	4.75%	9.89%	14.66%	2.05%
Annualized Return	32.39%	-2.02%	14.08%	13.49%	2.07%	1.22%	2.15%	3.42%	1.34%	3.32%	3.66%	2.38%
Annualized Stdev	8.48%	3.19%	5.01%	4.69%	3.85	4.73	3.39	3.81	3.36	2.90	3.93	0.75
Sharpe Ratio	3.79	-0.72	2.76	2.82	-0.70%	-0.01%	-0.70%	-0.96%	-0.27%	-1.29%	-0.82%	-2.00%
Maximum Drawdown	-2.90%	-3.66%	-1.70%	-1.56%	0.86	0.54	0.74	0.75	0.56	0.76	0.86	0.56
Correlation With EW STK/Bond Port.					5.2%	2.1%	4.6%	7.3%	2.3%	7.3%	8.9%	3.9%
Breakeven Return												

The above provides historical return and risk comparisons for the period 2001-2013 as well as the years 2008 and 2013. One does not have the time or space to point out all of the obvious comparisons, but please take note and I mean please.

1. A sample portfolio of 90% of an Equal Weighted S&P 500 and Barclay Agg. Bond Portfolio and 10% of the portfolio of Equal Weighted CISDM Hedge Fund indices has a superior (higher) Sharpe Ratio to that of the standalone stock and bond portfolio for the period 2001-2013 and for the year 2013 (the Sharpe Ratio is not reported for 2008 since a negative Sharpe Ratio has little economic meaning). Also note that in all three periods of comparison the maximum drawdown was less for the stock, bond, hedge fund portfolio than the standalone stock and bond portfolio.
2. The comparison results at the portfolio level are very simplistic. One need not simply equal weight hedge fund strategies to create a portfolio. Instead, one may wish to concentrate on the performance of individual hedge fund strategies. For every hedge fund strategy (except Global Macro in 2013) in every period of comparison, the Sharpe Ratio of each of the reported hedge fund indices is greater than that of the stock/bond portfolio and each has a correlation of less than 1 with the stock/bond portfolio. If a breakeven analysis was conducted each of the strategies, each strategy could be considered for inclusion with the stock and bond portfolios (Again the one exception is Global Macro in 2013 where the required Breakeven Return is greater than that reported by the Global Macro index).

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3. In short, an individual or institution may well decide to create a hedge fund portfolio which has risk and return characteristics that differ from an equal weighted portfolio of CISDM Hedge Fund indices and given the high relative information ratios of the various reported hedge fund strategy portfolios and the low correlation of these hedge fund strategy portfolios, it is reasonable to expect that the benefits of such portfolios exist.
4. One can of course decide, however improperly, to compare hedge funds directly to the S&P 500 with no adjustment for risk. In this case, at the very least one should only compare the hedge fund strategy with the highest equity bias (equity long short). In 2013, the S&P 500 had a return of approximately 32.39% while the Equity Long Short (ELS) CISDM index had a return of 14.66% (a difference of about 17%). Obviously hedge funds underperformed and almost by half. This certainly indicates the era of hedge funds is over. But what happened in prior years. In 2008, the S&P 500 lost 37% while ELS hedge funds lost 14.43% (a positive return difference of almost 23%). In short, ELS underperformed by about half in an extreme positive equity market and outperformed by a little more than half in an extreme negative market. Over a longer time frame (2001-2013), ELS had a higher net return and a lower standard deviation than the S&P 500.

OK, I have bowed to the gods of historical numbers and these numbers indicate that hedge funds may (not will) provide relative return to risk benefits to very simple stock/bond portfolios. Where is the hitch in the above? Well first of all the above are historical numbers and may represent unique economic and investment time frames that may not happen again. Second the underlying indices representing stock, bond and hedge fund portfolios have changed dramatically over this time frame. The S&P 500 today is not the S&P 500 of ten years ago (e.g., less financials); the Barclay Aggregate is no longer the same (more government bonds today and future rates may not reflect past rates) and the CISDM hedge fund indices have new and different managers as well as new and different strategies.

Is there any place the Press got it right? Yes. The hedge fund portfolios of most institutional and individual portfolios generally do not outperform equity markets on an absolute basis, but note and note again they generally should not. CalPERS reports that their hedge fund

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portfolio had net return of about 7.3% net fees in 2013 (gross returns (before fees) were probably in the range of 10-12%). This is similar to the return to the simple equal weighted portfolio of the CISDM hedge fund indices (8%) reported in the above Table. These returns are similar to what any investor could reasonably expect. In a world of 2-3% interest rates, net returns near 8% and gross returns of near 10-12% for a portfolio of equal weighted HF portfolio that has a volatility (2.07%) half of that of an equal weight stock/bond portfolio (standard deviation 4.70% and a return of 13.8%). Again, in short, any hedge fund based portfolio that reflects the returns of an equal weighted portfolio of the CISDM hedge fund indices has achieved reasonable expectations.

Note, the above returns are net returns (include managers fees and since the hedge funds returns are index based do not contain survivor bias, backfill bias and many of the various investment concerns many cited as problem by some writers). But there are costs to selecting and monitoring these managers (some fund of fund managers may charge up to 1%). If these internal costs and external costs (educating a less than informed public is always a potential cost) may result in institutions deciding against investing in hedge funds. But these choices should be based on an informed discussion (It should be pointed out that as an individual who helped manage an almost \$3.5 billion in hedge fund strategies I never paid any manager fees of 2/20 and as a fund manager I never charged a 2/20 fee. These managers may exist, but I met very few of them who had institutional clients (note one cannot depend on the reported fee structure that manager's report to most hedge fund data sets. I was Director of CISDM the home of the CISDM hedge fund data base the oldest and longest continuous hedge fund data base. Many managers report a fee structure of 2 and 20 since they want to discount off of a reported fee structure rather than

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have to charge a fee above that reported in a public data base. In short the 2/20 reported fee structure as the normal fee structure of hedge funds needs to be rethought and is not reflective of that paid by the institutional world).

Is there a way hedge funds can get it right? Yes, become more transparent as to their strategy and when it should and when it may not perform well. Be more realistic as to fees. Small fund managers may wish to charge only asset fees until their fund is large enough to cover management costs and only then reduce management fees and charge performance fees reflective of performance. In contrast, larger funds for whom lower management fees may cover basic operational costs may wish to lower management fees and charge primarily performance fees. I understand the reluctance of certain large institutional players to invest in certain investment strategies which are not scalable enough to impact their bottom line especially given some internal and external perceived risks. There are many alternatives. But blindly rejecting hedge fund strategies as investment vehicles for reasons, as the Press seems too ready to emphasize, of their performance relative to the S&P 500 or of reported fees in public data bases are certainly not among them.

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Perspective

Immigration: Jesus's Pronouncement

"Many Are Called, But Few Are Chosen"

Thomas Schneeweis

September 2016

Now I am not against a big party. However, most parties that I have attended that have been successful had one common feature; that is, there was a diversity of individuals. In the case of U.S. immigration, the many who are chosen are primarily from the area south of the U.S. At the very least we need to find a way to diversify the party. If not then the question therefore remains how to return to the original proclamation of Jesus on immigration, that "Many are Called but Few are Chosen".

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Immigration: Jesus's Pronouncement

The well-known story of the wedding feast of Cana in which the Father of the Bride eventually had to go into the streets to find people to fill the wedding party. Even then, one man at the wedding is not dressed appropriately and is sent away, with Jesus remarking that “Many are called but few are chosen” (Matthew 22:14). It does not take too much of a stretch to take out the ‘wedding party’ and put in the word immigration. If asked about official U.S. immigration policy, Jesus might again have responded “Many are called but few are chosen. The U.S. restricts direct immigration. Those that are allowed in are permitted only after passing a set of strict rules. In official U.S. immigration policy, few are called however, in today’s upside down inside out immigration policy, Jesus would perhaps have had to reverse his pronouncement into “Few are Called but Many are Chosen”. As the Father of the Bride, who on seeing how few of the called showed up went out and dragged everyone they could into the party, immigration officials and Washington Politicos have gone about making sure that the immigration party was well attended; that is for all practical purposes, chosen. In short for the U.S. few are called for direct immigration into the United States, but many are chosen as immigrants if they can find a way to show up for the party.

Now I am not against a big party. However, most parties that I have attended that have been successful had one common feature; that is, there was a diversity of individuals. In the case of U.S. immigration, the many who are chosen are primarily from the area south of the U.S. At the very least we need to find a way to diversify the party. If not then the question therefore remains how to return to the original proclamation of Jesus that “Many are Called but Few are Chosen”.

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As any academic, I returned to my roots as a statistician. I always knew the issues of selection bias and the host of other biases that exist with trying to move from a risky (e.g., uncertain) correct answer to a somewhat simple well defined (but often incorrect) conclusion. I realize that often the medium of a set of answers that individuals may offer may in fact be the preferred answer to the individual's mean answer or the mode (most often) answer. One could continue on the entire set of approaches that individuals can use to filter out noise as to the best answer. There is even an entire approach to searching out the best answer among scholars known as the Delphi approach (in which a set of differential scholars is asked to review the results of previous scholars) while other reviews their work. The hope is that a number of scholars from one group would cancel out the errors of others such that the true answer would somehow find its way through the mass of knowledgeable people such that while one may not see it as the best, a group of various groups would at some level all come to the similar conclusions.

How is this process of determining the best answer to immigration come to conclusion expressed in the title of this comment piece "Many are called but few are chosen". As the editor of several journals, I know that the review process is to filter the paper through various scholars who decide the pros and cons of each paper. It would be great to ask multiple people about a potential immigrant but given the time and resources the decision is often left to one or two individuals. There is certainly a lot of error in the process, from the reviewer chosen, to how the author response. So similar asking a few individuals to determine what is an exceptional article (or potential immigrant) has its problems. An alternative was simply to publish all papers and then hear the responses from all readers of the article, with the hope that the mean of a larger set of individuals will somehow filter out the noise (a type of Google approach to listing answers to searches). Each paper (immigrant) would be given a ranking as to the quality of the article

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(immigrant) based on the number of responders. The problem was of course how to control the responders. Perhaps the author of the article has more friends than a much better paper (a problem Google also has).

Another alternative was to publish the paper and then simply to publish the critiques of scholars on why the article is good or bad (a kind of national Annie's list). Here the idea was that if the article was bad no author (or immigrant) would dare submit it and if it was good at least there might be some type of preselection bias. This too fails the problem as to determining the quality of the responder. I have a few individual who would love to criticize anything I do and a few (smaller number) of those who would praise everything I do. Again, no solution.

Where is all of this going, it that in the past year, we have had several approaches to determine immigration into our country which are similar, as I would maintain, to the issue of academic publication. Some are accepted based on the simple fact that they have already published (immigrated) or know someone who has published (another immigrant). Some are accepted since on almost any criteria they are a superior article (immigrant). Some are accepted simply because they get the article in at the right time (for immigrants you speak Farcie when we need Farcie). Others somehow are just in the right place at the right time (for immigrants we need computer people and you are computer people). Others get in simply on the luck of the draw (I do not know how this works in some schools but between two good candidates I do remember a coin in the mix). Luck does matter. Perhaps, as most editors, you simply take who is ever there (a great article is one you have, a good article is one you do not). However, for the United States this might benefit those who are already here rather than looking for the best immigrant available. I know it sounds hard but one may simply wait until you have enough qualified articles to publish or in the case of immigration to let the immigrants in.

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Is there another solution to the immigration question? In academics, there are many individuals who cannot get published in top quality journals. These individuals often submit their efforts at national or even regional meetings. Their work is often presented to a sparse audience and the critiques are often of little value but it is a starting off place for individuals to get ready for the big league. Similarly, someone wishing to enter the United States might not get accepted into Massachusetts but would have the opportunity of presenting themselves in Maine. Each year, they could present their work to Florida, Texas or let us say Georgia. This process would give them the incentive to work harder in their initially adopted state knowing the opportunity for advancement awaited.

The problem in the above solution is that the best and the brightest would immediately get accepted in let us say California while North Dakota and Minnesota might get populated with immigrants let us say from northern Europe. This would eventually cause dramatic misallocations between the best and worst states. As an alternative, one could use the technique sponsored by major sports teams in the United States. Each year those states on the bottom of the “Best Of” would have the opportunity of choosing from the top of the immigrant list while those states on the top of the “Best Of” would choose last.

I am sure there are many other ideas. For instance, maybe we just need a better marketing campaign. In past years, America was noted for “give me your tired, your poor, your yearning masses struggling to be free”. Look at what we got, us. The quality of ‘US’ is seen in the fact that many other countries have poorer soil, fewer lakes and rivers, almost no natural resources and yet they remain competitive with us. The only explanation is that those who have immigrated here in the past were the lowest of the lot. We as a country should ask more of our immigrants or at least to be a whole lot smarter. Why not create an Immigration test similar to

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what exists in college? We would not have to take everyone; I believe Stanford and Harvard take less than 2%. Remember many maybe called, but few are necessarily chosen.

Where I am taking this is that, as I spoke of at the start of this article, perhaps what one needs to determine is the best way to determine the few that are chosen for immigration. If done correctly, the process could be extended internationally with each nation using their immigration policy as a means of determining its current ranking as the “Best Of” countries. Some have recently questioned the place of the U.S. among the world of nations. If any of the above methods are used, and we permit a ‘General Call’. Each country would list its name on a ballot and individuals could proceed to choose where they would desire to go. If permitted, I wonder how many would vote to go to the Sudan. I suspect the number would be low. In contrast I believe the U.S. would have no paucity of takers. In short, while the U.S. has its problems I believe you couldn’t print enough ballots. Just an idea.

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He has more than forty years of experience in asset management including President of a firm (Schneeweis Partners) which specialized in 'bespoke' structured finance as well as Director of Research at Ursa Capital, LLC which managed an approximately \$4 billion hedge fund managed account platform. He has been managing partner of a managed futures fund (White Bear Managed Futures Fund) as well as an equity long short hedge fund (White Bear Equity Long-Short Fund) and President of an approximately \$1 billion commodity-based investment firm (Alternative Investment Analytics). For over forty years, he also was on the Board of Trustees of the AMG Funds (a retail distribution arm of Affiliated Managers Group, Inc., a world's leading provider of boutique investment management expertise to institutional and individual investors).

He is currently President of Quantitative Investment Technologies, LLC, an investment management firm specializing in downside risk management and investment strategy replication programs (Email: thomas@quantinvesttech.com and website: www.quantinvesttech.com) and the founder of TRS Associates (Email: thomas@trs-assoc.com and Website: www.trs-assoc.com), a financial consulting firm. A collection of his other publications, comments and current writings can be found through his personal email: trschrneeweis@gmail.com or at his personal website: www.thomas@tschrneeweis.com.

Perspective

Investments: Dedacted, Redacted, or Enacted

Thomas Schneeweis

December, 2016

What we do not say is as important as what we say.

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TRS Associates: Perspective

Investments: Dedacted, Redacted, or Enacted

Investment Basics: Everything You Wanted [REDACTED] to Know About [REDACTED] Investing

For most investors, investing is about how [REDACTED] to invest and what to invest in. For most investors the answers are [REDACTED] simple [REDACTED]. One invests through a trusted and knowledgeable local RIA or Broker who provides a complete range of well researched and suitable for investment. Given the background of most investors these investment advisors [REDACTED] [REDACTED] will fully explain the underlying sources of return [REDACTED] for each investment and help the investors determine the level of [REDACTED] return the investor desires and what investments are consistent with the [REDACTED] return goals of the investor. In the determining which products to offer the investor, the local 'investment advisor' [REDACTED] [REDACTED] relies on products [REDACTED] [REDACTED] for which he has [REDACTED] direct knowledge of how the products work.

For many investors, the decisions as to what to invest in are basic; [REDACTED] [REDACTED]; that is stocks or bonds. For either type of investment one is often offered a series of investment alternatives such as individual stocks or bonds or products that offer a portfolio of stocks or bonds (often in the form of mutual funds...). Investors are often given a set of material which enables them to determine the relative performance of each product, This Usually this is determined by looking that the return [REDACTED] that [REDACTED] [REDACTED].

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