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Legacy of Jack Treynor, the Future of Active Management and China Investing

CONFERENCE SUMMARIES

Ron Kahn
Blackrock
The Future of Investment Management

Over the past several years, we have seen several trends, including a steady flow of assets from active to passive, increasing completion amongst active managers, an explosion in available data and computing power, and the development of "smart beta" strategies as alternatives to active and passive. We expect investment management in the future to consist of three types of strategies: passive, smart beta, and pure alpha, with pure alpha defined as active returns above those achievable via static exposures to smart beta factors. The requirements for success vary across these three strategy types.

Vineer Bhansali
LongTail Alpha, LLC
How to Beat the Machines Before they Beat You

The increase in the use of technology, "big" data, and algorithms has created changes in investment management that are here to stay. How may active managers adapt to these paradigm shifts and remain competitive, and perhaps even outperform the machines? As applications, we look at some dominant algorithmic strategies and investment frameworks that can coexist and compete with them.

Hong Yan
Shanghai Advanced Institute of Finance (SAIF), Shanghai Jiao Tong University
Hedge Funds in China

We study the performance of hedge funds in China using a new hedge fund database (e.g., the CHFRC Research Database), and develop a new composite index (e.g., the CHFRC China Hedge Fund Index) to investigate the aggregate performance of Chinese hedge funds and their cross-sectional differences. We show that during

the period of 2007–2015, hedge funds in China as a group, represented by the composite index, generally produce better returns than the blue-chip stock market index with less than half of its volatility and maximum drawdown, while in the cross section there are wide variations in both performance and risk measures among funds. We explore the drivers for the outperformance of the index and the variations in the cross section.

Jennifer Carpenter and Robert Whitelaw
New York University
The Real Value of China's Stock Market

This paper shows that, counter to common perception, stock prices in China are strongly linked to firm fundamentals. Since the reforms of the early 2000s, stock prices are as informative about future profits as they are in the US. Although the market is segmented from international equity markets, Chinese investors price individual stock characteristics like other global investors: they pay up for size, growth, liquidity, and long shots, while they discount for systematic risk. Price informativeness is significantly correlated with corporate investment efficiency. For international investors, China's stock market offers high average returns and low correlation with other equity markets. This paper shows that, counter to common perception, stock prices in China are strongly linked to firm fundamentals. Since the reforms of the early 2000s, stock prices are as informative about future profits as they are in the US. Although the market is segmented from international equity markets, Chinese investors price individual stock characteristics like other global investors: they pay up for size, growth, liquidity, and long shots, while they discount for systematic risk. Price informativeness is significantly correlated with corporate investment efficiency. For international investors, China's stock market offers high average returns and low correlation with other equity markets.

John B. Guerard, Jr.
McKinley Capital Management, LLC
Data Mining Corrections Testing in Global and Chinese Stocks

In this analysis of the risk and return of stocks in global markets, we build a reasonably large number of models for stock selection and create optimized portfolios to outperform a global benchmark. We apply robust regression techniques and LASSO and LAR regression models in producing stock selection models and Markowitz-based optimization techniques in portfolio construction in a global stock universe. We apply the Markowitz-Xu (1994) Data Mining Corrections test to a global and Chinese stock universes and report interesting results. We find that (1) robust regression applications are appropriate for modeling stock returns in global markets; (2) weighted latent root regression robust regression techniques work as well as LASSO and LAR in building effective stock selection models; (3) mean-variance techniques continue to produce portfolios capable of generating excess returns above transactions costs; and (4) our models pass data mining tests such that the models produce statistically significant asset selection for global stocks.

Jiang Wang
Massachusetts Institute of Technology
Chinese Capital Markets: An Empirical Overview

The Chinese capital market, despite its relative short history in its modern form, has experienced a tremendous growth and is not the second largest in the world. Due to tight capital controls, its development has mostly been isolated from the rest of the world, which has contributed to its limited understanding from outside. Yet, this state is bound to change substantially as China becomes more integrated into the global financial system. In this paper, we provide an empirical overview of the Chinese capital market, its development, its important characteristics, and its challenges.