

MIK Fund Solutions

1633 Broadway
28th Floor
New York, NY 10019
212-468-2000
www.mikfs.com

Using Every Bit to Byte: Leveraging Data to Generate Alpha

Introduction

Regardless of economic, competitive, regulatory, or market conditions, traditional asset and hedge fund managers are now, and always have been, faced with one primary mission: generating alpha. Even when firms pursue similar investment strategies, satisfying the multiple demands of investors and giving sustained ROI is the goal.

Historically, successful investment strategies have relied on information asymmetry and information advantage. And frequently portfolio managers have garnered as much information as possible in designing both long-term strategy in the investment thesis and short-term implementation in trading.

Information informs every decision a managers makes. Simply put: the more information available, and the closer that information (and analysis) is to decision-making in real-time, the better the decision. For example, if managers have a better sense of their risk profile, integrated with external market data as trading decisions are made, the better (or at least less worse) decision that will be made.

It is no longer sufficient for portfolio managers to rely solely on external information, but it has become necessary to incorporate internal data resident in the firm, to create a total, integrated, real-time view.

It is time to marry the internal data around risk, accounting, and historical performance to the investment thesis, and to leverage it in decision making, rather than leaving this information

siloes. And especially in a competitive situation where performance is measured in decimal points, every information advantage can be critical to success.

Scribing The Data Dilemma

What is interesting is that for the most part up until recently the information that drives both the long and short term construction of a strategy and its implementation comes from sources external to the firm. This approach begs the question: what other information is available that is not being used to garner investment advantage? The obvious answer is often the most neglected: internal information generated by in the firm in risk, in accounting and in historical performance.

Why has this data not been used as part of the front-end exercise? Historically, there have been two problems related to using this data. The first is that the data is housed separately, and as a consequence there is no “translation” between silos. The second is that even if this integration dilemma is solved, the data is not then ultimately married and integrated into the investment thesis. This essentially leaves critical information unused which could otherwise inform the decision-making process by the manager.

So, critical to portfolio management is the relationship between information use, strategy and alpha. And critical to that relationship is the ability to architect information asymmetry to one’s advantage (over and against competitive models). Yet many managers never leverage the data resident in the firm to inform the strategy or the investment thesis.

Not only is internal information readily accessible to managers but can be critical as managers seek every advantage to garner performance. Every piece of information can be leveraged to gain advantage. And paradoxically, even as the cost of maintaining internal data continues to be a legitimate concern, the data “sits and collects cost and dust” rather than being deployed to help performance. If it is there anyway, why is it not being used? Frequently, because there is no mechanism for translating the databases into a coherent whole and then further relating this internal data to external data sources.

A New way of looking at information: Leveraging a Holistic View

We would like to suggest a different approach: marrying the internal data already resident in the firm to the investment thesis and to external data as part of the universe of information that enables you to construct strategies that lead to alpha.

Taken from this perspective, managers have more information at their regarding performance. The use of external market, research and trade data (both current and historical) is universally used by managers to gain the critical asymmetrical advantage over the competitors. Which argues for a more comprehensive collection and use of every piece of information available.

Internal data regarding the firm's one historical and current performance is not only possible – but when integrated with the external data and the investment thesis in real time establishes the most comprehensive view available and secures an advantage over managers who fail to take such a view. For example, exposure is often seen as a “yesterday” measure, where a real-time view might leads to a more aggressive or conservative approach depending upon the current risk profile.

The MIK Approach

Data drives the investment thesis. The thesis drives alpha. MIK connects the two.

MIK's basic Portfolio Monitor integrates the prior day's positions with current trading activity, generating a real-time view of a portfolio that encompasses both ticking PnL as well as exposure. Beyond these basics, MIK Portfolio Monitor presents a holistic view, taking all the data (both historical and across numerous measurement categories) to produce a comprehensive, digestible, and actionable view, based on all the data (both external and internal) available to managers. The result is a single integrated view based on all the components of trading, research, accounting and risk.

However managers decide to use data, and using whatever data point that drives a particular manager's view, MIK can relate it to all other metrics customizing the analytics and calculations to suit the client's view of the investment opportunities.

Specifically, MIK delivers a portfolio monitor, designed as a workstation for the CIO, Portfolio Manager, COO, CFO, and CRO.

Conclusion

Given the complex environment that portfolio managers now find themselves in, the use of all data available is no longer a luxury but a necessity to inform decision that lead to alpha. This is especially true as internal data is collected as a matter of course but rarely used or leveraged creatively to aid in decision making.