

Pray Tell, Why Such Grandiose Names?

Stockholm (HedgeNordic) – Investors should be wary of hedge funds with grandstanding or overly serious names reflecting authority, trust and power, a recent report from Juha Joenväärä from Centre for Hedge Fund Research at the University of Oulu in Finland and colleague Christian Ioan Tiu from the University at Buffalo, have found.

Upon examining 18,000 hedge funds globally managing on average \$160 million, the researchers found that funds that go out of their way to embellish their namesake in gravitas actually “have lower returns, alphas, Sharpe ratios and manipulation-proof measures, higher volatilities and maximum drawdowns as well as higher probabilities of extinction than the funds with lower name gravitas.”

Following that mouthful, they also tend to charge higher management fees and lower incentive fees

Funds employing words related to economics, nations and politics appear to be the worst offenders, making it that much easier for investors to fall for them.

The report found adding one such word could bring in roughly \$227,000 more annually. The researchers put the phenomenon down to the psychological effect a prestigious name might carry. An article from Bloomberg on the report failed to name any of the culprits by name.

Read the study [here](#).

Reads the study's Abstract:

“We document that investors allocate more flows to hedge funds whose names exhibit gravitas – defined as a combination of words from geopolitics and economics, or suggesting power. The economic effects are relatively large: averaging across our models, adding one more word with gravitas to the name of the average fund brings more than a quarter million dollars more in annual flows. We also document that having a name with gravitas is associated with abnormal negative performance: high name gravitas funds have lower returns, alphas, Sharpe ratios and manipulation-proof performance measures, higher volatilities and maximum drawdowns as well as higher probabilities of extinction than the funds with lower name gravitas. Although we find evidence that investors learn about the true investment abilities of their funds and respond less to gravitas as they do so, the chasing gravitas behavior survives all these controls. From the point of view of hedge fund managers, we document that funds with more name gravitas report to fewer databases, suggesting that giving the fund a “good” name serves as an alternative form of marketing. Finally, we show that our results are robust to a generous battery of additional tests, including corrections for potential endogeneity issues or for whether the fund only accepts qualified investors.”

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