Biggest Jerks in Hedge Fund Industry Underperform Peers

Stockholm (HedgeNordic) – Until recently I always thought I would have to change my shy and introverted personality if I ever wanted to work in the asset management industry, as I had the idea that most successful fund managers resemble the cocky hedge fund mogul Bobby "Axe" Axelrod from the series "Billions". Contrary to popular belief, a fresh study shows hedge fund managers ranking higher in "dark triad" personality traits – psychopathy, narcissism, and Machiavellianism – underperform their less psychopathic peers.

The term "dark triad" is generally defined as a set of traits that includes the tendency to be heartless and insensitive (also known as psychopathy), the tendency to seek admiration and special treatment (narcissism), as well as the tendency to manipulate others (Machiavellianism). To study fund managers for the so-called "dark triad" personality traits, researchers watched video interviews of 101 hedge fund managers recorded by an advisory firm between 2006 and 2016 for marketing purposes. The researchers then compared personality types with the investment performance of each manager's flagship fund between October 2005 and September 2015.

The study, published in the latest issue of Personality & Social Psychology Bulletin, finds that "those who ranked in the top 16 percent on the psychopathy scale lagged the average by 0.88 percent per year." The average annualized return of the group over the 10-year period was 7.27%, handily above the annual return of 4.36% generated by the average hedge fund over the same time span. The median assets under management of this relatively high-performing population of hedge fund managers were $4.64 billion.

While the managers featuring greater psychopathic tendencies produced lower absolute returns, the managers with greater narcissistic traits generated decreased risk-adjusted returns. This implies narcissistic managers delivered mediocre returns, but clients had to endure more volatility to get those returns. The researchers believe narcissism, which is associated with overconfidence, "causes fund managers to stick longer with ideas that just aren't working." As Leanne ten Brinke, the lead author of the study and a social psychologist at the University of Denver, puts it: "not only do these personality traits not improve performance, our data suggest that they may hinder it."

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