Hedge Fund Managers Winning at Poker Invest Better

Stockholm (HedgeNordic) – The game of poker resembles a fast-paced game of investing and risk management, as both entail unknown variables, constantly changing odds and diverse risk-return opportunities. A new study offers new proof that success in poker translates into success in financial markets. Specifically, the study finds that hedge funds managers “who do well in poker tournaments have significantly better fund performance.”

In a new paper titled “Hedge Fund Hold’em,” Yan Lu, Sandra Mortal, and Sugata Ray try to answer two questions: (a) is there a correlation between skill in poker and skill in hedge fund management; and (b) how do investors respond to visible evidence of skill in poker in fund managers. Using data on tournament poker winnings, the authors find that “hedge fund managers who have “cashed” in at least one poker tournament significantly outperform managers who have no cashes.” The monthly raw returns and alpha of the “poker-winning” group are between 10-40 basis points higher than of their non-poker playing peers.

More importantly, “this effect is stronger for tournaments with more entrants, larger buy-ins, larger cash prizes and for managers who win multiple tournaments,” which suggests that “poker skills are correlated with fund management skills.” To answer the second research question, the authors examine how investor flows to those managers winning poker tournaments differ relative to other managers. The study finds that “fund managers experience an economically and statistically significant increase in net inflows after cashing in a poker tournament.”

The finding suggests that investors deploy “additional capital to managers who win poker tournaments.” Yan Lu, Sandra Mortal, and Sugata Ray also find that fund managers generate lower alpha after winning a poker tournament. The authors “interpret the decline in alpha, together with the increase in net flows, and the fact that the alpha decline is concentrated in funds experiencing the largest net inflows as evidence consistent with decreasing returns to scale.”

The complete paper can be viewed here:


Hedge Fund Hold'em*

Yan Lu, Sandra Mortal and Sugata Ray

Abstract