Editorial

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I have just returned from two conferences that were hugely enjoyable, and both awash with rumour. The rumour mills have all given the same message, active quant is dead. Our hedge fund readers probably know this already!

Numerous industry friends are moving from their current positions of employment, and there was a certain aura of gloom pervading these conferences. In the bar, gallows humour was evident; world-weary professionals vied with each other in terms of how much assets under management had left their particular fund in the last few months. I was reminded of descriptions of Vienna during the hyper-inflation of the 1920s when the expensive restaurants were full of people in a mood of ghoulis gaiety, eating the last of their savings before those savings were rendered totally worthless.

Such gloom may be ill-founded. It is believed that there may have been a trillion dollars in active quant at the height of its popularity. The point is that the exodus of several hundred

billion from active quant is likely to benefit the hedge funds that remain in the space. Once the exodus has taken place and staff has been shed, certain things will happen. There will be lots of good people to hire, most of whom will have learnt a great deal from their recent experiences. Alpha, which is a decreasing function of funds invested, will go back up as funds invested fall. Market impact, which is an increasing function of volume, will go back down; it follows that August 2007, the first month of the quantmare, will be much less likely. We will not have 25 standard deviation events on a daily basis as we have been having. There will be less tiresome books on extreme event risk, there will be less talk about the failure of quant models. Finally, belief in quant, which was not evident at either conference, will be restored.

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