

121 | 24 | 0
Views | CrossRef citations to date | Altmetric

Perspectives

The Myth of the Absolute-Return Investor

M. Barton Waring & Laurence B. Siegel

Pages 14-21 | Published online: 08 Apr 2019

Cite this article <https://doi.org/10.2469/faj.v62.n2.4080>

Sample our
Tourism, Hospitality and
Events Journals

>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

References

Citations

Metrics

Reprints & Permissions

Read this article

Abstract

The noti
that sup
for benc
whether
(represe
benchm
relative-
benc

The rece
misunde
returns o
portfolio
or alpha
which ac
benchm

We Care About Your Privacy

We and our 861 partners store and access personal data, like browsing data or unique identifiers, on your device. Selecting "I Accept" enables tracking technologies to support the purposes shown under "we and our partners process data to provide," whereas selecting "Reject All" or withdrawing your consent will disable them. If trackers are disabled, some content and ads you see may not be as relevant to you. You can resurface this menu to change your choices or withdraw consent at any time by clicking the ["privacy preferences"] link on the bottom of the webpage [or the floating icon on the bottom-left of the webpage, if applicable]. Your choices will have effect within our Website. For more details, refer to our Privacy Policy. [Here](#)

We and our partners process data to provide:

.....

I Accept

Reject All

Show Purpose

ople believe
ttle regard
nd figure out
beta part
ng is
ppropriate

vestment
e active
urely active,
vesting, in
ix of



Hedge funds are currently the most visible and popular of would-be absolute-return investments, but the term "absolute return" is also applied to certain other structures, including some concentrated long-only active managers. Practically all of the managers who disdain benchmarks say they do so because the use of benchmarks to measure performance limits the creativity and aggressiveness that can be achieved by those with superior skill. Actually, benchmarks do nothing of the kind: They merely achieve a fair apportionment between the return from skill and the return from being exposed to markets. Investors need this information to make successful decisions about active managers, including hedge funds.

Although most investment strategies mix alpha and beta exposures, a well-engineered market-neutral long-short hedge fund does not. Such a fund—if it is really market neutral in all the dimensions of market risk—allows investors to earn pure alpha, although even this return is not an absolute return: It is alpha relative to the properly specified benchmark—in this case, the return on cash. Investors can add beta exposures as desired, using inexpensive futures contracts or other vehicles, in what is popularly called a "portable alpha" strategy but which might be better described as portable beta.

Thus, all investing is benchmark relative. Even Warren Buffett has a benchmark, an opportunity cost of capital that he must beat if he wants Berkshire Hathaway to go up more than for zero beta, as has nothing to do with superior insights, although not important.



Relat

Socia

Sourc

Linkin



Related research

People also read

Recommended articles

Cited by
24

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up

Register to receive updates by email

 Sign up

 

 

Copy 

Accession

Registered
5 Howick Pl



Wiley & Francis Group
an informa business