

Psychos vs. nice guys — which type of hedge fund manager gets better returns?

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The popular image of the best hedge-fund managers as ruthless risk-takers who put profits before people could be all wrong.

It turns out that hedge-fund managers with psychopathic personality traits underperform their less psychopathic peers, according to [new research](#) published Thursday by the Society of Personality and Social Psychology.

Researchers analyzed 101 hedge-fund managers for so-called “Dark Triad” personality traits — psychopathy, narcissism and Machiavellianism — then looked at their investment performance over a 10-year period.

Hedge-fund managers who exhibited more psychopathic traits earned .88% less each year than their less psychopathic peers. That means with compound interest, an investment of \$1 million would earn \$161,694 (15%) less over the course of 10 years if invested with a manager who displayed more psychopathic tendencies, researchers said.

“It suggests that our folk wisdom that being callous and ruthless leads to success seems to be incorrect,” said study co-author Leanne ten Brinke, a psychology professor at the University of Denver. “It behooves us to check our assumptions, especially when we have an opportunity to put someone in a position in power, to elect someone to office, or to promote someone to the C-suite.”

Ten Brinke co-authored a previous study on U.S. Senators that found a similar link between psychopathic traits and performance. Senators who exhibited psychopathic tendencies were less likely to find co-sponsors for their legislation. (That study didn’t identify which senators displayed psychopathic traits.)

To study the hedge-fund managers, researchers carefully watched video interviews of the managers that had

been recorded by an investment advisory firm between 2006 and 2015 for marketing purposes. All of the managers were asked similar questions, like, “Can you explain your portfolio construction process?” Researchers watched for verbal and nonverbal behaviors that reveal personality traits.

Psychopaths tend to lack empathy, though they can also be very charming — at least in a superficial way — and can use over-the-top flattery at times to manipulate others. In the video interviews, some of the more psychopathic managers would talk gleefully of their rivals’ failures, or show no emotion when discussing mass layoffs, ten Brinke said.

“Things like Schadenfreude came up a lot,” recalled ten Brinke, referring to the German word for taking pleasure in the misfortune of others.

Generally speaking, psychopaths have a propensity to lie and manipulate others for self-gain, and an appetite for taking risks, ten Brinke told MarketWatch. They also tend to show a lack of conscience and often engage in antisocial and criminal behaviors, she said.

Researchers then studied investment returns between October 2005 and September 2015 for each manager’s “flagship fund” because they tend to most closely reflect the manager’s investment process, researchers said.

Firms included in the study managed a median of \$4.64 billion in assets and all had been in operation for at least 10 years. The firms in the study saw average annualized returns during the study period of 7.27%, higher than the hedge fund research index for that time period (4.36%), “suggesting that our sample reflects a relatively high-performing population of hedge-fund managers,” researchers wrote.

The hedge-fund managers who served as the study’s participants aren’t aware that researchers used their video interviews. An independent review board at the University of California, Berkeley approved the study’s ethics.

Researchers noted that the study has some limitations. The time period included the global financial crisis, and “we cannot rule out the possibility that in other periods or contexts, Dark Triad traits may be related to better outcomes,” the authors wrote.

Ten Brinke’s co-authors were Dacher Keltner, a UC-Berkeley psychology professor who studies interpersonal power, and Aimee Kish, a managing director at TeamCo Advisers, a San Francisco-based investment advisory firm that manages hedge funds.