

Investment Process Modernization for Small Funds and Family Offices

Client: Kindred Capital

Client Background

As the former #1 Institutional Investor (II) ranked Chief Investment Officer at Morgan Stanley, Steve Galbraith made his career espousing the value of combining quantitative and fundamental philosophies. But when he left Maverick Capital to create Herring Creek Capital, he left behind one of the most efficient, effective, expensive and technologically rich environments on Wall Street. Replicating its significant competitive advantages, especially the powerful data analytics platform that shortly after evolved into the EDS platform, was an enormous challenge. With this software, he was able to leverage best-in-class technology to create a holistic environment that matched best practices in the industry – helping ensure that his firm could compete at the highest levels possible and all within a budget that was a fraction of the cost of custom solutions.

The Challenge

In today's competitive financial markets, integrating and understanding the increasing volume of data is critical to making sound investment decisions. The answer is to include a robust data-analytics platform, but capable commercial solutions don't exist, and Herring Creek didn't have the resources to build a custom platform. Without one, however, trying to monitor and act on all relevant information, as well as enhancing processes across the firm was challenging and performance suffered.

The Solution

EDS is cost effective, quick to deploy and powerful. Herring Creek's team now had access to the same dynamic data analysis as high-cost internal platforms, and it was customized to their process. They processed more information, generated more ideas, and improved forecast precision, and portfolio management was enhanced as risky traits, such as macro exposures, were identified and minimized.

“Within the portfolio, we noticed short interest spiking ahead of an earnings event for one of our shorts, on the EDS event tracker. We ran a cross-sectional study, and quickly saw how much of an outlier it really was. No other names with similar metrics (margins, growth, leverage) traded at such a high multiple – and even peers were trading at half the multiple. We super-sized the short and the stock was down 20% on the print. In the months that followed, the stock was down another 30%.”

- Steve Galbraith, Chief Investment Officer (CIO)
Herring Creek Capital / Kindred Capital

The Result

Since we implemented some quantitative changes in tracking expectations around quarterly earnings reports in 2013 (we now look at options pricing, crowding and price momentum, among other things), cumulatively we have added almost 800 basis points of alpha in our short security selection. Herring Creek now had a holistic platform for continuous learning, evaluation and improvement that helped increase conviction and compete at the highest levels possible. Clients also noticed the improved process and assets increased.

“Equity Data Science has become an integral part of our daily investment process. No question. It's helped us create increased alpha and stronger discipline.”

- Steve Galbraith, Chief Investment Officer (CIO)
Herring Creek Capital / Kindred Capital

Let us know how we can help you.

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