Twitter Thread by Noahtogolpe ■



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1/Today in @bopinion, I talk about the legacy and career of Jim Simons, the founder of Renaissance Technologies, who is stepping down as the hedge fund's

2/Simons' fund beat the market -- consistently, by huge percentages, after fees.

That's an astonishing accomplishment.

https://t.co/uopG6WutzU

3/How did he do it?

Basically, by being relentlessly smarter and better-managed than the competition.

https://t.co/p6ZTd7POfQ

4/So does Simons' success mean markets are inefficient?

Yes and no.

Obviously yes, since Renaissance could (and can) beat the market. But there are a few key caveats...

5/First of all, RenTech's most eye-popping and consistent returns are in its flagship Medallion Fund.

But most investors can't invest in that fund. It doesn't take your money.

https://t.co/sTXUzl09Lc

6/In fact, the Medallion Fund doesn't even take *its own* money. It makes regular profit distributions, so that the fund's total size remains small -- around $10 billion or so.

https://t.co/bhqE71eSdH

7/This means that the Medallion Fund's famous 39% annualized return (after fees) doesn't compound.

If it did, Medallion would be worth far more than all the rest of the hedge funds in the world combined, by now!

8/So a fund like Medallion isn't really comparable to, say, the return of the S&P. One compounds, the other does not.

Why? Because the market inefficiencies Medallion exploits are limited in size. And thus, Medallion's profit opportunities are limited in size.

9/To address this, Renaissance made a bunch of other funds that do different things than Medallion, and whose strategies scale up more. These have done generally well, but they're no Medallion...

https://t.co/ZsXQ4NNUI8

10/Even as Medallion racked up huge gains in 2020, Renaissance's other funds largely tanked.

This shows that consistently beating the market AT SCALE is incredibly hard, even for the smartest and best-managed people on the planet.

https://t.co/oowJd3k8GH

11/That's no knock against Renaissance, of course. They're the best in the biz.

But it does mean that Renaissance's existence doesn't prove that stock markets are inefficient. Indeed it shows us just how not-so-hugely-inefficient they are!

(end)

https://t.co/uopG6WutzU