



# P E R S P E C T I V E

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## Serenity Now

June 20, 2019

The title here is a combination of one of my standard [Seinfeld references](#) but also a direct reference to the [Serenity Prayer](#). Hopefully the second part will be clear in context below.

As we have demonstrated over the last 14-15 months, we cannot control short-term performance (we hope we have some control, we certainly do have confidence, in our ability to generate great outcomes for our clients in the long term). Of course, when things are going poorly, you “re-question” everything, including keeping an open mind that “this time might truly be different.”<sup>1</sup> I’ve certainly addressed that myself ([here](#), [here](#), [here](#) and [here](#)) and as a firm we remain obsessed with it. But, barring finding a smoking gun, and knowing strategies like ours go through tough times, and having weathered and recovered after several in our 20+ years at AQR (and longer implementing similar strategies), we are largely left with continuing to enhance our process as we always do while rooting (and root we do!) for long-term themes (like value, momentum, carry, quality, etc.) that we believe in deeply to go back to delivering soon. There is just frustratingly little one can actually do (barring actually finding a smoking gun) in the short term when strategies with good<sup>2</sup> but nowhere near infallible, odds are on an excruciating streak.

This brings me to today’s topic (you knew I’d get there eventually right?). What else can you do, other than try to track down every hypothesis for why now might be different, when you are going through a very tough time? Well, at the risk of being trite, you do everything else. You keep your clients fully informed with honesty and effort. You continue to invest in the business including building the highest quality teams in the industry. That is, you focus on what you can control in the short term.

What brought on this particular blog is that, as part of our significant Enterprise Risk effort, the operational risk team [recently won](#) a gratifying award. It seems odd, yes even to me, to see a headline “Asset Manager of the Year: AQR Capital Management.”<sup>3</sup> But, of course, that headline is not for recent performance (that would indeed be really odd!).<sup>4</sup> It’s for process and team building in an often neglected, but super important, area. It’s for laying the ground work, the iceberg of effort beneath the waves, for delivering the returns we expect over the long term to come.

So I hope you’ll forgive some bragging during a tough time. But I’m proud of Graeme and his team and what we’ve built (and will continue to build). And, given my confidence about our process going forward, it’s a great comfort to me that we continue to execute on all the things we can control, and gratifying that it’s recognized. Thank you for indulging me. And serenity now!

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[1] Though, admittedly with some rational Bayesian cynicism about how rarely this is true.

[2] The long-term live and backtested evidence, and the intuition behind our process, is absolutely unshaken by this very tough time.

[3] Risk.net’s OpRisk Asset Manager of the Year, 2019.

[4] Though not entirely impossible as some areas of what we do (e.g., defensive equity, our newer traditional fixed income efforts, risk parity, even managed futures, particularly in the less liquid area, has been better lately). But clearly a ridiculous claim firm-wide!

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