



Is it twice as hard to invest Long-Short vs Long-Only? *Who cares – Show me the Returns*

There is a healthy debate around the theory that it is twice as hard to invest long/short (L/S) than it is to invest long-only. The theory highlights the difficulty of picking stocks, consistently, that beat standard benchmarks on the long-only side. To correctly pick stocks – on both the short and long side – shouldn't that be doubly challenging? In fact, investing long only is so challenging today many have investors have simply given up trying to beat the market; rather, they simply take the standard benchmark returns.



L/S is twice as hard:

Indeed, “shorting” is a complicated game. For example, in order to profit by shorting a stock, the manager must borrow the shares. On these borrowed shares, an investor must pay the dividend to the long side. Even the liquidity on the short side is much more limited than on the long side. No doubt, shorting stocks successfully requires a special set of skills.

L/S is easier than long only:

Imagine the world's best stock analyst. This individual spends long days visiting companies, speaking with suppliers, customers, and competitors. Nights and weekends, there she is pouring over financial statements. If such an analyst is forced to stick with the long-only side, will not her talents and efforts be needlessly squandered? In her hours of research didn't she uncover great, and terrible stocks that one should long, and short?

Who cares:

With a healthy dose of “past performance is no indicator of future performance” we tend to feel that there is merit to both arguments. May we suggest, to get beyond the debate, simply look at the numbers. L/S managers should deliver positive returns in good periods and protect during difficult periods. By this analysis, if you have a L/S manager who has delivered attractive after-fee returns in good periods, and has frequently protected during difficult periods – than who cares. You have likely found a good manager. As Rod Tidwell once advised his fiduciary, just:

“Show me the money.”