

PORTFOLIO



Christine Idzelis

As Robinhood Investors Pounced, Hedge Funds Bailed

University researchers studied the behavior of different investors in the pandemic.

July 27, 2020



As Robinhood Investors Pounced, Hedge Funds Bailed

Investors took different tacks during the Covid-19 crisis, with hedge funds “indiscriminately” selling stocks amid the market tumult, according to research from the University of Virginia and University of Zurich.

“Hedge funds divested significantly more in absolute and relative numbers than pension funds, mutual funds, or investment advisors,” University of Virginia researchers Simon Glossner and Pedro Matos and the University of Zurich’s Stefano Ramelli and Alexander Wagner wrote in a [paper this month](#). During the first quarter, hedge funds divested around \$100 billion of their equity positions held at the end of last year, or 4.4 percent of their assets under management at that time, the researchers estimated.

Institutional investors were largely caught off guard in the crisis, as few firms had identified pandemics as a material risk, according to the paper. After European and U.S. economies shuttered to slow the spread of Covid-19, the authors said stock prices saw a “fast and furious” decline.

“The Covid-19 pandemic, a truly exogenous shock, offers a powerful setting to study the behavior and preferences of institutional investors,” they wrote in the paper. “An analysis of changes in holdings through the first quarter of 2020 reveals that mutual funds, investment advisors, and pension funds favored stocks with strong financials.”

Fearing corporate earnings would drop in the economic lockdowns, these institutional investors preferred shares of companies with low leverage and high cash cushions, according to the research. Companies with such strong financials “fared relatively better” in the Covid-19 crash, the researchers found, as did those with strong scores in environment and social, or ES, criteria.

But pensions did not tilt toward ES.

“Contrary to what is perhaps the common narrative about social preferences and long-term orientation of pension funds, pension funds actually decreased their holdings of firms with strong ES scores,” the authors said. The findings suggest that “hard measures” of resilience — cash and low leverage — are more important to institutional investors than “soft measures” like ES.

SPONSORED

You Still Need to Strengthen Portfolio Resilience

Meanwhile, hedge funds, typically viewed as “sophisticated arbitragers,” behaved differently in the Covid-19 crash as they worried about their own leverage, according to the researchers. That is, changes to hedge funds’ holdings were not explained by the debt and cash levels or ES performance of companies in their portfolios.

“Presumably these investors — in the attempt to deleverage — engaged in indiscriminate selling of stocks,” the researchers said.

While hedge funds and other institutional investors were busy selling, retail investors acted as “liquidity providers” during the crash, according to the paper. Data from Robinhood Markets — a retail trading app with more than ten million users at the end of 2019 — revealed “opposite patterns to the changes in institutional ownership,” the researchers said.

“Robinhood investors tend to be young,” they said, and their interest in stocks with high leverage and low cash holdings “substantially increased” in March.

[[II Deep Dive: Private Equity-Owned Companies Fuel Surge in Defaults](#)]

The median age of Robinhood investors is 30, and they tend to have between \$1,000 and \$5,000 in their brokerage accounts, according to the researchers. Although they are not “fully representative of U.S. retail investors,” the authors said “they represent a large fraction of active individual investors.”

As the pandemic remains a concern for investors, the researchers said they plan to investigate the role of institutional and retail investors in the second quarter as well.

“Covid-19 is still an active and evolving crisis with many uncertainties,” they wrote, with questions remaining about how soon a vaccine will be widely available and the potential for a second wave of cases.

Filed Under: [Portfolio](#)

Related Content

PORTFOLIO

The Best (and Worst) Stocks in the Coronavirus Crash

Leanna Orr June 22, 2020

PORTFOLIO

Hedge Funds' Favorite Stocks Were Hit Hardest in the Coronavirus Crash

Amy Whyte April 23, 2020

SPONSORED

Opportunities Amidst Unprecedented Volatility

Sponsored by Northern Trust Asset Management May 04, 2020
