

# AlphaClone Lets Investors Mirror Top Hedge Fund Manager Picks

## Overview

The hedge fund industry has long held the allure of the financial community and wealthy investors due to its perceived ability to deliver alpha—returns outstripping those available through passive broad market participation.

Affluent investors seeking above-average returns have been willing to pay fees of 2 percent and more, along with an average of 20 percent of the profits, to gain access to hedge funds. The lucrative fees and profit share have traditionally provided huge incentive attracting the brightest minds to the industry. Equipped with the best technology, cutting-edge research and the ability to operate unconstrained in a largely unregulated environment, hedge fund managers have consistently pushed the envelope, implementing innovative strategies not available elsewhere.

The headline-grabbing scandals of the past decade, combined with the 2008 financial market meltdown, served to fundamentally change the landscape for the industry—managers could no longer fly-under-the-radar in terms of how they operated. The Dodd-Frank Wall Street Reform and Consumer Protection Act empowered the SEC to regulate the industry, resulting in the requirement that most funds register and regularly disclose key elements of their operations, including details of their trading activity, positions held and returns within the portfolio.



In the wake of the market meltdown, Mazin Jadallah, founder and CEO of San Francisco-based [AlphaClone, LLC](#), an SEC-registered investment advisor and research firm, recognized opportunity in the new regulations that were being enacted to provide transparency within an industry most noted for its opaque approach to investing. In his opinion, financial and operational disclosure by the majority of funds would enable one to identify top-performing managers and gain insight into what they were doing—providing an investment edge not before present to the average investor or financial professional advising clients.

The company was launched with a mission of making it easy for investors to benefit from the stock picking prowess of the world's top investment managers, offering an intelligent, risk managed portfolio construction approach providing liquid, transparent, low-fee strategies, according to

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— Mazin Jadallah  
Founder and CEO  
AlphaClone, LLC

# AlphaClone Case Study

Jadallah. “We help answer two basic questions: ‘What are the top investors doing?’ ‘How can I take advantage of this knowledge?’ Our objective is to give investors actionable, cheaper, more liquid access to the investment ideas of the world’s top institutional investors.”

Utilizing a revolutionary approach reliant on cloning—the concept of creating strategies that intelligently apply the publicly disclosed stock ideas of top hedge fund and institutional money managers—AlphaClone created a platform providing best-in-class disclosure-based research and strategies to professional advisers and individual investors seeking exposure to the alpha potential inherent in hedge fund investments.

## Challenge

To create the disclosure-based hedge fund replication strategies underpinning their core products, the company’s development team needed to build a platform capable of tracking information and reverse-engineering sophisticated trading models. Their database would have to be capable of monitoring the portfolio holdings disclosed in the 13F-HR quarterly filings of more than 4,000 SEC-registered fund advisers.

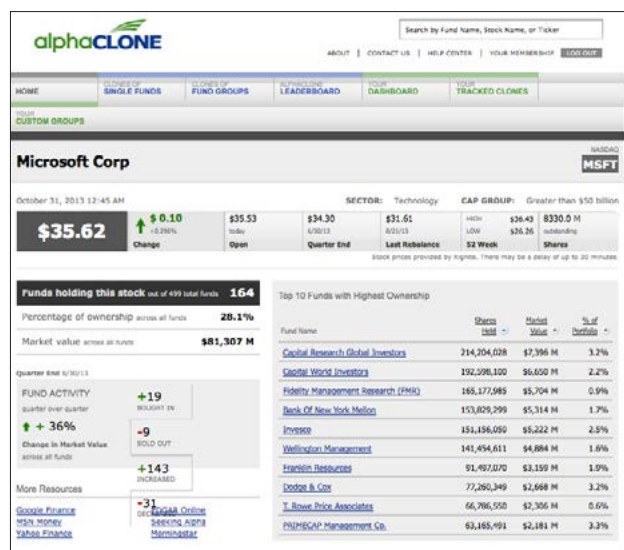
Additionally, the system would require the integration of reliable price quotes for the vast array of equities traded within those funds, necessitating data management capabilities and dedicated resources. The stock prices and disclosure data would then be used to construct and back-test strategies replicating those of the fund managers tracked.

## Solution

As a startup with limited financial and manpower resources, the development team recognized that creating the infrastructure to gather and manage vast volumes of daily stock data internally was simply unfeasible. It was determined the company would be best served engaging a reliable market data provider capable of delivering the equity pricing necessary to power the AlphaClone system.

The company conducted a review of market data vendors seeking to identify the provider offering the best solution most capable of directly addressing their primary needs—a scalable, cost-effective, [market data feed](#) that could be quickly and easily integrated into their system, requiring little work on their part during and after implementation.

AlphaClone elected to partner with [Xignite](#), utilizing the [XigniteGlobalQuotes CloudAPI](#) proving stock quotes for U.S. and international equities to power their platform. “We use Xignite to pull in price quotes. Simply put, when we compared [Xignite’s cloud-based model](#) with others we found it to be more reliable, cheaper, and perhaps most importantly, simple to implement,” says Jadallah. “It’s hard to imagine making it any easier to incorporate market data in an application.”



*Xignite’s cloud-based market data powers the AlphaClone hedge fund portfolio tracking system.*

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## Results

Since launching in 2008, the company has expanded beyond their core “cloning strategy” online research service to provide a suite of products, including their licensed [AlphaClone Hedge Fund Long/Short Index](#) and the [AlphaClone Alternative Alpha ETF](#). They’ve also launched their proprietary [AlphaClone Core Strategies](#) managed separate accounts, providing portfolio management services and an array of strategy selection options to individual investors based on their proprietary hedge fund position replication methodology.

Partnered with Xignite, the company’s goal for the future is to utilize technology and innovation to help investors follow the smart money—providing an easy, proven way to mirror the collective intelligence of the world’s top fund managers. “As a technology-driven asset manager, our focus will always be on leveraging technology in new and useful ways to empower investors,” offers Jadallah. “Relying on Xignite for market data allows us to focus our development resources on areas of our service that provide us with a differentiated advantage.”



*AlphaClone’s proprietary cloning system enables investors and advisors to mirror the collective intelligence of the world’s top hedge fund managers.*



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