



TOP TEN REASONS WHY MOST INVESTMENT MANAGERS UNDERPERFORM THE INDEX

1. Too Much Money:

- Under management – illiquid + new and smaller ideas have no impact.
- In the managers' pocket – tests the work ethic; usually diminishes.

2. Too High Fees:

- Management expense ratio.
- Multi-manager structures (Fund of Funds or WRAP Programs).
- Front end load / back-end load mutual funds.

3. Institutional Thinking:

- Adhering to guidelines is good but being unwilling to have them changed to meet the environment is bad.
- Peer pressure – committee think – too many group meetings.

4. Management Hierarchy:

- Most organizations are pyramids, with the prime objective being to get promoted – rather than stay put and get better with experience.

5. Market Timing:

- Countless studies show that it is time in the market that vastly outperforms – not timing the market.

6. Lack of Clear, Consistent, Beliefs / Disciplines:

- Leads to too-short time horizons and overtrading the portfolio – commissions cheap, but not execution prices.

7. Assignment Changes:

- Just when the successful 'match' of research or portfolio skill set is demonstrated – the reward is an assignment change – for experience broadening or a new product.

8. Pressure “To Do”:

- ‘The Street’ largely works on commissions – there are many fancy screens and fun toys – there is great pressure to “do something”, when staying the course is often better (takes nerve).

9. Macro vs. Micro:

- ‘The Street’, newspapers, BNN, etc., feed off of; endless data, gurus, and econometric prognostications – this is largely NOISE!
- “The secret to success in forecasting is to do so often”.
- The secret to successful portfolios is to own successful companies within.
- Peter Lynch: “If you spend more than 15 minutes per year on economic forecasting, you have spent too long.” (He was the best – Ask Jeremy Grantham – The other best.)

10. Nine are troubling enough! (There are more.) We haven’t even mentioned innate ability or aptitude. This is an art; only partly science.

FINAL NOTE:

Our Georgian EMAILS are not designed to be self-serving, but rather, informative. This one is inadvertently an exception. We aspire to none of these faults. We have no excuse not to outperform!

David Knight
Georgian Capital Partners
Scotia Plaza
40 King Street West, Suite 3405
Toronto, ON M5H 3Y2

Tel: (416) 640-4100
www.georgiancapital.ca

February 2010