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# Getting past investment performance

Investors and their advisers often get too hung up on the past performance of investment products and managers. It may demonstrate past success, but the old adage, "figures lie and liars figure," also can be true.

**PERSONAL FINANCE**

**RICHARD TODD**

Understanding how past performance was achieved and why it will happen in the future must be analyzed and answered. We have boiled it down to five key questions:

• Does the manager (or team) have exceptional insight, work experience and/or academic success?

There is no substitute for solid, long-term experience in managing money. Academics can be important, but we believe generally won't lead to any special insight.

There is much academic research on stock-market strategies written by students and their professors that is interesting. They can even be the genesis of a product or idea, but there is a big difference between research and real-world implementation.

• Does the manager employ a unique strategy that can capitalize on market inefficiencies?

Unique, complicated and hard-to-copy strategies are ideal. When the strategies become popular or duplicable, the edge is lost and low-cost indexing may be preferable.

• Does the manager have more firepower in terms of total experience, number of professionals or systems?

Today, money-management firms seem to lean toward teams to protect themselves from a star manager's departure. Teams don't always work though, and group thinking can lead to mediocrity.

• Does the manager have better access to information than his peers?

Regulations on full disclosure have affected a firm's ability to get information from public companies they previously could obtain easily. But some money managers go deeper than others – interviewing competition, customers and suppliers. Others do a better job of digging deep into a company's financial characteristics, perhaps focusing on the quality of the data and not taking it at face value.

• Does the manager have superior trading skills or systems that can enhance performance?

There are many cases when poor implementation costs a manager significant performance, quarter in and quarter out. The reverse also is true at some trading desks. Particularly, some hedge funds are exceptionally adept at consistently adding value through quality trading.

These questions can identify key factors that explain past performance and give a sense for whether a manager will be able to add value going forward.

A complete organizational analysis must be completed as well. Firms with superior back-office capabilities and low personnel turnover, independent firms with no conflicts of interest and firms with a specific specialty are ideal.

Finally, we prefer that portfolio managers "eat their own cooking" and have much to gain or lose by their own investment decisions.

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