

# BALLENTINE PARTNERS

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## The Siren Song of Active Management

*Bruce D. Simon, CFA, CPWA<sup>®</sup>, Managing Director & Director of Portfolio Research*

At Lake Wobegon, “all the women are strong, all the men are good looking, and all the children are above average.”

Despite being an obvious fiction, many people seem to apply a similar logic to managing their money. They believe that through their own superior insight, or by hiring investment professionals with many years of experience, they can “beat the market”. Their confidence is an inherent part of human nature, and is responsible for creating so much wealth in our society over time.

Investing money is different. As an individual investor, one is competing with the market itself, consisting of hundreds of thousands of other investors who are all trying to do the same thing. One person’s gain is another one’s loss, so by definition, not everyone can be a winner. Yet people soldier on, committing their hard-earned cash to active managers or picking stocks themselves, despite overwhelming odds against success. The attraction of finding the next Apple or Google is just too hard to resist.

How bad is it? Last year, according to Cornerstone Macro, only 25% of active managers beat the market. The year before, the number was 13%.

What about over longer time periods? The numbers are even worse. Data compiled by S&P Global showed that over the 10-year period ending in 2015, less than 20% of active U.S. equity managers beat their benchmarks. In addition, there is almost no correlation between a manager’s winning year and their subsequent performance the following year. You would be better off taking your cash to a Vegas blackjack table.

Active management can make sense in some asset classes. We look for areas that are underserved by traditional managers, where information is less readily accessible, and where experience and/or personal relationships give a manager a unique edge. Examples include emerging and frontier market stocks, European small cap stocks, and less liquid strategies such as real estate and direct lending.

We believe the best way for individual investors to maximize the probability of investment success (however defined) is to combine a portfolio of low-cost, tax-efficient vehicles in the most heavily trafficked asset classes with a carefully chosen set of actively managed strategies in those areas where the potential to outperform is highest.

Maybe investors are beginning to get the message: in June, investors withdrew an estimated \$21.7 billion from actively managed funds that buy U.S. stocks, the biggest monthly withdrawal since October 2008, according to Morningstar. Our message: ignore the siren song of active managers and you will be better off in the long run.

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In addition to working directly with a number of family clients, Bruce serves on the Investment Management Committee, which is responsible for the oversight of all of the investment activities for the firm. Bruce rejoined Ballentine Partners in June 2016 as Managing Director and Director of Portfolio Research after more than 5 years as Chief Investment Officer of City National Rochdale, LLC, in Los Angeles. City National Rochdale, a wholly owned subsidiary of City National Bank, serves family clients across the United States with a staff of nearly 100 investment professionals. Before moving to Los Angeles, Bruce served as Chief Investment Officer of Ballentine in our Waltham office for three years. Prior to that, Bruce spent four years with Morgan Stanley Private Wealth Management in New York and eight years with Glenmede Trust in Philadelphia as Chief Investment Officer and Portfolio Manager. Bruce received an MBA with a concentration in Applied Economics from George Washington University and a BS degree in Business Administration from Penn State University. Bruce holds the Chartered Financial Analyst (CFA) and the Certified Private Wealth Advisor (CPWA®) designations. He lives with his wife in Palm Beach Gardens, Florida.

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