

Here Come the Brides

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In 1905, my grandmother and her new husband left Okinawa for the sugarcane plantations of Hawai'i. For reasons that will forever remain a family mystery, they decided to pack their things and set off across the Pacific to a country they had never seen.

As it turned out, they were lucky to have left when they did. Soon after, laws were passed to sharply restrict

Asian and Eastern European immigration and, as a practical matter, the only way people could enter the country was if they had close family already here - a brother, a parent, or, for those who had no family on U.S. soil, a future husband. And so, **the boom in "picture brides" began, as stateside single men engaged in the pre-Internet equivalent of Match.com ... marriages by photograph.**

Arranged marriages were already common in Japanese culture, however, this new approach added even more to the element of surprise (with an arranged marriage, at least the parties got to meet in person before the wedding). **Like Match.com, many a young bride found her groom to have lopped off more than a few years from his profile and to have lied about his financial situation.** In some cases, the man who showed up to meet the ship was clearly not the guy in the picture, and that would not be because he was better looking, taller or younger.

When it comes to selecting a money manager, many clients today are casualties of the same opaqueness. Not that I'm suggesting that hiring a money manager includes the same solemn, lifelong commitment as choosing a spouse. But I do think that the hiring process, if not handled well, can also lead to disappointment.

Buying the invisible

As a fiduciary, you're forced to buy the invisible. As the legalese goes, "past performance is no guarantee of future performance," and unless you plant a hidden camera in your portfolio manager's office, **you can't be sure that the investment process you *think* you're hiring is the one you're actually getting.**



All the candidates have top quartile performance, of course, since no consultant in his or her right mind is going to recommend someone who's currently underperforming (even if it's precisely the right time to fund them). So a bunch of statistics, a written report, and a highly structured, formal presentation are today's matchmaking tools.

In practice, however, it's more art than science. People tend to hire people they feel most comfortable with (people just like them); or they hire people they've heard of (the investment world's equivalent of the truism, "No one ever got fired for hiring IBM"); or they hire people who act and look like the people they *think* they should hire.

Of course, it could be worse. Take a look at how **a small investigation into former New York state Comptroller Alan Hevesi's use of state employees to chauffeur his wife around has morphed into a giant pay-to-play scandal ranging from coast to coast.** As James Clarkson, acting director of the SEC's New York office, said in a press release, "As alleged in our complaint, Aldus was chosen by the pension plan because of Aldus's willingness to illegally line the pockets of others. When another investment manager refused to pay kickbacks, that firm was rejected and Aldus cashed in."

So, assuming a lack of desire on your part to illegally line the pockets of others, **how can you make the hiring process less opaque and as a result, more effective?** Here are four suggestions:

1. **Tell the finalists who the competition is.** I can't think of one good reason why not (unless you don't want the losers to figure out the fix is in and that they're cannon fodder). **Knowing the competition will make the finalists really differentiate themselves,** and may flush out issues or subtleties that can't be gleaned from databases and write-ups.

Also, by forcing firms to highlight their strengths versus the competition, you'll gain a better appreciation for each firm's weaknesses. **Why? Because the competition will tell you.** Why not let them do the work for you?

Overall, you'll get better, more specific presentations, which in turn will allow you to make a better decision.

2. **Allow ample time for the finals presentations.** I know, listening to a bunch of money managers can be about as much fun as listening to a Senate filibuster. But **there's no way you can get a detailed picture of an investment process and ask really good questions in only 20 minutes** (a 20-minute finals could be a sign that the winner has been pre-selected, and everyone's just going through the motions).

As long as you've brought everyone together, **why not use the opportunity to**



really learn something about the people who are the potential managers of your money?

3. **Reach beyond just the known entities.** At a recent Financial Research Associates conference, the advice given to newbies was to not bother answering RFPs of pension plans whose consultant does not already have a relationship with the firm.

Why not? The minimum qualifications are spelled out so *everyone* responding should technically be worthy of consideration, and **isn't the whole point of an RFP to cast as broad a net as possible?** After all, if the dude bearing the glass slipper hadn't insisted that all the maidens in the land try on the shoe, he'd have robbed millions of children of their bedtime story.

True story: A long, long time ago, Daruma scrambled hard to make a zillion copies of an RFP with a billion tabs and Excel tables, and shipped the package off FedEx to the pension plan. A few days later, while visiting the consultant to the search, we noticed a large, newly arrived, sealed carton in the waiting area containing all the responses. **On a sideboard nearby lay a presentation to the plan sponsor about the three finalists *already chosen* for that search!**

Make sure the tent is large and that the finalists are not culled from a favored few.

4. **Have a conflict of interest policy in place.** If you're going to hire a board member to run a piece of the endowment, then at least have a pre-nup set up. Just as you have to put up with your obnoxious brother-in-law at Thanksgiving because he's family, **you may find that social niceties make you reluctant to fire your manager when you should.**

Or better yet, **don't hire someone close to the institution in the first place.** Think of Yeshiva University's regret at funding board members Ezra Merkin and Bernie Madoff; just because someone is a donor or on your board does not mean you've been inoculated from a case of self-interest-itis. There are so many fine firms out there, **why not make the hiring and firing decision less complicated by keeping it at arm's length?**

I was told by a development officer at a large university that having a policy - and adhering to it - makes it *easier* to turn down those who'd donate to your institution in exchange for being given assets to manage. (The non-profit version of pay-to-play, I guess.)

Remember, having a transparent, thorough, and thoughtful hiring process upfront will save you disappointment later. You may not be able to know all there is



to know about your "new bride" before you move in together, but as I'm sure my grandmother would agree, it's a whole lot better than just a fuzzy photograph.

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