



## **Letter to the Editor - Beyond Graham: Politics and Investment Strategy**

July 28, 2009

*The following letter is in response to Jerry Minton's article two weeks ago, [Beyond Grantham: Politics and Investment Strategy](#).*

Dear Editor,

Over the years, I have seen numerous such data mining studies with high potential returns. One of the most outlandish was the one from a new hedge fund started (in 2007) to exploit the gains from buying small bank stocks - superb historical returns even after 2% and 20% fees. I'm sure that fund got crushed in this financial massacre.

I don't buy such data mining studies for several reasons.

1. They work great until they stop working.
2. The difference between the two strategies (Minton's political "sweet spot" strategy versus 50% in the S&P 500 and 50% in the NASDAQ 100) was not too dramatic until about the last 18 months.
3. The last 18 months have no resemblance to what happens in the market most of the time.
4. What good it is to know that "buy and hold" doesn't work unless "they" also tell you what works for long term investors. This dog won't hunt in my backyard.
5. I don't have the guts to follow such mechanistic models.
6. How would you feel being out of the stock market three out of four years?
7. I don't know anyone who escaped with less than 30% carnage in that period.
8. How would you make a living as an RIA during the three out of four years you are out of the stock market?
9. If you are a firm believer in active management through the exercise of investment judgment, it will be tough to convince your clients that you'll invest their funds in SPY or R3000 index fund and still get paid enough to live the charmed life.
10. Here is an idea: perhaps you can sell your clients on this study and charge a performance based fee.

Yours truly,

Kamal Khanna, CFA  
Retired



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