

Having Skin in the Game on Kill Haole Day

By Mariko Gordon*

October 26, 2010

Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives.



It's been a nostalgia-fest of '70s era Hawai'i for me these past couple of weeks.

First, there was the relaunch of [Hawai'i Five-O](#) (total thumbs up). Then I read [Wild Meat and Bully Burgers](#) by Lois-Ann Yamanaka, written in pidgin and very like my childhood (minus the hunting and violence). And finally – because these things come in threes – **a cringe-worthy email from**

my cousin Laurie, whose subject line was something to the effect of "Support Kill Haole Day."

In case you didn't also grow up in Hawai'i, [Kill Haole Day](#) refers to the last day of school, when the **Caucasian kids were fair game** (pun totally intended). As someone who is half-Caucasian and half-Okinawan, it was hard to know where I stood. Was I supposed to beat *myself* up?

The truth is, I don't remember anyone actually getting beat up; it was more the anticipated threat that hung in the air those last few days of school, ruining the start of summer vacation. And, to be fair to my cousin, her e-mail wasn't condoning Kill Haole Day – she was fundraising for [her coming of age movie](#).

In any case, the nostalgia and brooding about race over the past few weeks did get me thinking about how the topic of "skin" comes up in my adult life: **I've lost count of how many times prospective clients have asked, "How much skin do you have in the game?"**

I hate this question. In the same way that a mixed-race kid is never "enough" of one race or another, **there is no clear standard of how much financial skin in the game is appropriate**. What really matters – and what prospective clients are trying to get at – is, "Do you care as much about my money as you do your own?"

Unfortunately, the "give a crap" factor is hard to measure in a money manager. So skin in the game, while both misguided and ambiguous, becomes a seemingly objective proxy.



Just the other day, for example, [Morningstar ran an article](#) comparing Harry Lange's "paltry" \$500,000 to \$1,000,000 investment in Fidelity Magellan to Bruce Berkowitz's \$139 million invested in the Fairholme Fund. **The ipso facto suggestion was that Berkowitz would care more about the money you placed in his fund than Lange would.**

Now I don't know either man, nor have I looked at their records recently, but I assume Morningstar wouldn't use these two examples unless they supported its thesis. But in response to the article, and as my childhood friends might have said, "Eh brah, wassa matta you?"

Three reasons the skin in the game metric doesn't measure what it purports to:

1. **Context.** It's not the *absolute* dollars that matter but rather the proportion of dollars to total assets that has significance.

So while **some young mutual fund manager may have every last penny of his or her savings in her fund or her money management start up**, it still wouldn't be enough to keep a Wall Street mogul in cigars. Someone with a ridiculously large sum invested in his fund, on the other hand, may have even more ridiculous sums stashed away, making the nominal big bucks total a small percentage of his net worth.

Furthermore, **after the hundredth million, how much pain are you really going to feel if you burn the steak and have to eat your own investment cooking?** After all, [studies show](#) that beyond about \$75,000 in income, incremental dollars do nothing to change one's baseline happiness thermostat. That bazillionaire manager may care less about grabbing the next dollar of incremental return than you think.

2. **Money isn't everything.** Even in our business, we shouldn't jettison Abraham Maslow's [hierarchy of values](#) and cynically believe that filthy lucre is the only thing that motivates humans. I think every last one of us denies that we're willing to be bought or sold.

Perhaps being the very public head of one of the largest mutual funds in the country is plenty enough motivation to do a good job and not make an ass out of yourself. No one wants to be pilloried and vilified for bad performance. Things like respect and admiration from our professional peers, as well as a competitive drive to chalk up a brilliant record, also matter deeply.

3. **There are better questions to ask.** If you really want to understand the people who are managing your money, **ask questions that cut to the heart of your concerns:**



Who has the most to lose? For whom is this a calling, rather than just a job? How important is the product to the well-being of the firm? Is failure likely to be humiliation of the gruesomely public sort?

You get the idea. **There are some managers so passionate they will croak in front of their Bloomberg machines in their nineties.** And there are others who are more focused on monetizing their firm with a sale and enjoying a plummy lifestyle in Biarritz, or in trying to bully their offspring to join the family firm and carry on. In none of these cases does skin necessarily correlate with commitment.

Don't get me wrong. **I think hiring a manager who cares as much about your money as you do is absolutely critical.** But please don't look for your answer by means of an ambiguous, misleading euphemism. It won't reveal what you're understandably eager to discover.

** Mariko O. Gordon is founder, CEO and CIO of Daruma Asset Management, a NY-based small cap investment management firm. Subscribe to her free monthly e-newsletter On Daruma's Watch [here](#).*

www.advisorperspectives.com

For a free subscription to the Advisor Perspectives newsletter, visit:
<http://www.advisorperspectives.com/subscribers/subscribe.php>