



Letters to the Editor

March 2, 2010

The following is in response to our article, [How to Squander \\$170 Billion](#), which appeared on February 16:

Dear Editor,

Perhaps this study cited in this article simply points out that human nature is just as problematic for investors with hundreds of millions to invest as they are for 401(k) participants with a few thousand. Success often requires us do what does not feel easy or right.

The article's comments on managing expectations are right on, but my firm's perspective and conclusions on how to deal with those expectations differ somewhat from those mentioned.

Perhaps the best way to protect investors from making serious mistakes is to keep them away from the types of asset classes that are most volatile in the first place. In the wrong hands, energy, natural resources and emerging markets can be very damaging to participant portfolios for the exact reasons your article describes. We know up front that the characteristics of these volatile investments (which are admittedly potentially very profitable) are very likely to result in the problems demonstrated in this study.

Picking good managers isn't easy. Picking managers of separate accounts, which is the basis for the study that was cited, is even more complicated. Who at the firm is actually managing the money? Handing a new manager \$100 million at the top of a market makes it tough for the manager to perform.

It is possible to identify skilled managers. Just buying an index fund is lazy.

Historical data has been very useful to us in finding great managers. Simply picking last year's best fund or maybe even the best performers over the past five years isn't a very good recipe for success. But if you can find a fund manager that has outperformed peer funds and a relevant benchmark over rolling five- and ten-year periods and has done so very consistently over decades, it's easier to separate the asset class or pool in which they swim from the performance and talent of a manager. It's easier to have confidence in their ability when they encounter the inevitable rough patch. This confidence is precisely what helps plan sponsors make better decisions.



Hiring a fund manager that swims in a volatile asset pool then firing them because the fund is volatile makes no sense at all. Maybe the plan sponsor never should have hired any manager working in a narrowly defined type of investment (small, mid-cap, etc). Was an investment in a volatile area of the market worth the inherent risk/volatility, and were the expectations for this manager well defined up front? Warren Buffet's philosophy is "don't invest in what you don't understand." That seems to have served Berkshire Hathaway very well. More plan sponsors might be well served to adopt this practice.

Some of the ideas expressed in the article, such as hiring a manager when they have had a bad quarter or asking "am I selling at the bottom?" seem a little off base. "Selling at the bottom" is more a function of where the market is and the investor's reaction to the market rather than a relevant measure of the talent of a manager. Perhaps the time to explore questions like this is when hiring a manager. Are we hiring them at the top? How many tops and bottoms have they experienced in the past?

Sure, we have needed to fire our share of fund managers, but we did so because we developed a set of expectations at the beginning. When those expectations are violated in a clear way, the decision to move on is much easier. I can't think of a single fund that we left that its replacement did not outperform – no regrets.

Let plan sponsors get in the way of success. Instead of buying a gold fund, let a seasoned experienced manager with a long-term consistent record decide whether, when and how much of such an asset to own.

Consultants and plan sponsors make a mistake when they let their egos tell them that they are somehow smarter about such things than most. If it was easy everyone would be doing it. But some people truly are smarter about such things, and they are largely hiding in plain sight. Most of the investment companies with which our firm has been fortunate enough to associate spend more time analyzing their mistakes and asking what can go wrong than trying to get in front of the next hot move. When a fund manager's returns are consistently in the top twenty-five percent or better within their category, the question of firing them doesn't come up, and there aren't as many opportunities to make bad decisions.

Yours truly,

Kurt Millikin, CEO
Millikin Mandt Associates, Inc.
Seattle, WA



Millikin Mandt provides investment consulting and recordkeeping services to sponsors of 401(k) plans.

The following is in response to Dan Richards' article, [Rethinking the Fundamentals of Client Communication](#), which appeared last week:

Dear Editor,

Whereas I agree with much of Mr. Richards' perspective on the importance of how we communicate with our clients, I find his introduction a bit misleading. Data on how many clients have switched or are planning to switch advisors following 2008's financial crisis consistently show that many, many more clients than in past years have or are planning to switch, at least partly due to their lack of confidence in how their former advisor handled their portfolio. One example is Oliver Wyman's survey indicating that the number of affluent investors looking to switch advisers has tripled in one year. Another consulting firm, Spectrem Group, found that only 36% of millionaires think their advisers handled the financial crisis well. Yes, I realize people don't always do what they say they're going to do, but still, characterizing this issue as a "popular myth portrayed in the financial media" is like saying Tiger Woods' personal problems don't really change anything.

Yours truly,

Scott McClatchey
Alliance Investment Planning Group
Carbondale, IL

www.advisorperspectives.com

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