



Letters to the Editor

June 10, 2008

The following letters were received in response to our [interview](#) last week with Ken French.

Dear Editor:

It is hard to know where to begin in critiquing this article. Perhaps the most cogent statement Mr. French makes is that he is "confident skillful (active) managers exist". But he follows that with a slap that these same managers will be overrun with hot money, eager to cash in on their active management skills, and eventually lead to the manager having a sub-par record.

While I do not pretend to have all the right answers, as Mr. French apparently does, nor do I have his impressive background in long-term market research, I do have more than 20 years of advisory experience. And even after all those years, I am still finding great managers who consistently beat their target indexes. And if their funds become too fat in asset size and performance begins to wane, I simply find another good active manager. Part of our success in recent years is due to our tactical allocation strategies, as well as not worrying about whether a manager fits a specific place in a style box. We hire great managers and give them quite a bit of slack in terms of their market cap and style.

Our experience is that, for the most part, index investing works best with large cap stocks, but not as well with small caps and international stocks, where markets are somewhat to significantly less efficient. But even in the large cap arena, there are some outstanding active managers who, by their stock picking abilities, have given our clients excellent returns over time.

While I certainly respect Mr. French's insight and research, and while I agree that most individual investors would probably be better off investing in indexes (because most individuals do tend to chase performance), as long as I can continue to hire good, active managers whose numbers compensate our clients for higher fees, our firm will continue on our current path. For us the key is flexibility and the lack of commissions, which allow us to use an almost unlimited number of management companies (including index mutual funds and ETFs), and not be tied to just a few.



Do we make mistakes occasionally? Of course we do, but the flexibility in our system allows us to react quickly and responsibly.

Thanks for the opportunity to respond.

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Dear Editor:

We use active, passive, index, no load, load waived active funds, stocks, UITs, and institutional funds. Isn't the debate really about net performance rather than fund cost structure as a method to compare performance and portfolios? I'd like to see a study or article about the net performance of equity funds and the average performance of passive/index funds compared to the best of all funds. We see this in many areas. Anyone working for a particular fund company would be rather biased. I have seen a great deal of DFA philosophy in articles and commentary. Is that the focus or philosophy of Advisor Perspectives? Where does the value come from in charging a fee to a client if all you do is allocate assets passively? Many would suggest that this is an act of overcharging a client for very little work. I struggle with that in our marketplace where I see a fair amount of that happening with average performance at best. Your thoughts in this area and a fair representation of investment styles is welcome. I work on a fee and commission basis and can see the benefits of both. I have seen fee based passive accounts that are horrible and the individual is paying way more in fees than they would have in good commission funds. My preference is not toward commission based funds. Rather we use no-load as well as load-waived funds. I'm not trying to discount either method, as both have their strengths and weaknesses in the active and passive debate when you look at various asset classes and styles. We actually are in the middle of the passive-active debate and use both.

Thanks for your efforts. Sometimes another perspective is needed and the passive camp seems to be very bold and vocal lately. Thanks for the articles. I have enjoyed your contributions.

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Editor's Note: We are not affiliated with DFA and we take no position in the active versus passive debate.

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