



## EYE ON: *Baseball*

# None of Us Can Win Every Game

By Timothy G. Parker, CFA

The beginning of baseball season is the time when every team starts with a fresh opportunity to have a winning season and to emerge victorious in the World Series. Players, managers, and fans are always optimistic about their team's chances.

The baseball manager who wins 55 percent of the time (with players who get a hit about 30 percent of the time) is considered a hero, even a legend. Why are there much higher expectations for investment managers?

Like baseball managers, investment managers cannot predict the future. Yet, a good manager in either competitive arena does know how to win. Actually, he knows what needs to be done to win, and then he focuses on doing that very well. In baseball, managers look for players with the skills and attitudes to fill the needs on the team. Investment managers look for values and other attributes to fill a diversified portfolio. Managers who are good at finding these golden nuggets can be confident that things will eventually work out for their benefit. Over time, good managers survive and inferior ones fade away.

Both the baseball manager and the investment manager share the same goal of beating their competition. They focus on relative return, not absolute return. Admittedly, it's hard not to think about absolute return, too. Every baseball manager wants to have a perfect season. Every investment manager wants to end the year in positive territory.

But looking at performance on a relative basis is crucial to judging performance. Think about it this way. Would a baseball fan really have an expectation that the team manager will win every game? In the same vein, how can a client have the expectation

that the investment manager will always pick investments that appreciate in value?

Like their expectations for their weather forecaster, our clients should expect us to do a better job than they could do on their own, but they should not expect 100-percent accuracy over something nobody can control.

### Transparency

Investment professionals need to move away from trying to predict market movements. I'm not suggesting that we lower the bar for the industry, but rather that we raise the bar—and that bar is transparency. The reality is that nobody can accurately predict market movements or have predictable performance year after year. If someone says he can, perhaps he just came out of a bar or should be behind bars.

Not only do investment professionals need to move away from making predictions, we need to highlight the value-added services that are more likely to produce a favorable outcome. That is, we need to emphasize non-investment planning issues, as well as matching client goals and risk tolerance to asset allocation.

Asset allocation came into greater focus in 1983 with Gary Brinson's watershed work concluding that allocations among asset classes is where value is added. Security selection pales in comparison. This was proved again in 2008, when we encountered huge differences in equity and bond market returns. An advisor who moved a client from 100-percent equity to a 50-percent equity/50-percent bond portfolio added tremendous value. Security selection might have added a few percentage points to the equity performance of the portfolio, but it was vastly outweighed by the decision to invest defensively in bonds.

The biggest component of time an investment professional spends with a new or ongoing client should be asking questions and listening, trying to gather definitive information and clues that will lead to the optimal asset allocation for that client, given the client's goals, risk tolerance, and financial situation.

I tell prospective clients that, while my track record does show superior stock selection versus a benchmark, it doesn't really matter, if they shouldn't be in stocks in the first place. Their asset allocation is the much bigger question, and one too quickly brushed over by investment managers and clients alike at the expense of the more "exciting" discussions of "predicting" the future of the markets.

Let's see if we can all raise our batting averages this spring. NA

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### Baseball and NAPFA National

If you like baseball, your visit to NAPFA's National Conference can be your opportunity to catch a Washington Nationals ballgame. The Nats will be hosting San Francisco on June 2-4 and the New York Mets on June 5-7, conveniently overlapping NAPFA's conference dates. Nationals Park is easily accessible from the Gaylord resort, where the conference is being held. Go to [www.washingtonnationals.com](http://www.washingtonnationals.com) for ticket information.