Investment Basics

Why
Self Direction Maybe Better?

July 3

With backgrounds in fund investment, NASDAQ-listed CFO, and investment banking on our research team, we are aware of certain inefficiencies that are inevitable within the capital markets. Here is a couple of reasons why we believe doing your own research and directing your own funds maybe beneficial to some educated investors.

- **Noise of Wall Street and Common Sense.** Wall Street has many constituencies that each have their individual interests. For example, the public company selling shares, the sell-side bank brokering the shares, and the buy-side fund investing in the shares all have common interests in providing the best information for the end investor. However, they each have different perspectives resulting in different messages appearing in different ways in the public arena. Their messaging is usually on point, and at times, it can be difficult to decipher where the message originated and what the vested interests (and competition) exist with the party that is speaking.

Considering that, common sense often comes into play when messages do not quite 'smell right', which is why often grandmothers using good ole' common sense are at times able to outperform some very high-quality managers. In addition, with the quant and formulaic investors, aka 'algorithm-based' traders, capitalizing on a certain mispriced behavior patterns, the ups and downs and volitility only increases the noise when stock prices which no meaningful change to the company.

In the long run, fundamental based research with common sense on the quality of the company has a larger affect on the investment return.

- **Fees and Cost Structure.** Managers salaries and benefits must be paid and Class-A building rents do not pay for themselves. As a result, there is a real cost of managing funds. In addition to the upkeep fixed costs, there are the marketing costs associated with the fund to gain interest from personal money managers which can be a greater expense. Certainly, some funds and vehicles are worth the investment while others are not. So, while these managers are experts and professionals, they have a higher hurdle rate to overcome to match your personal investment rate.

- **With Greater Dollars, Investment Risk Greater.** To enter a larger block of publicly traded shares in a company, all things being equal, an investor may need to pay a higher price on average to enter that given position. A larger number of sellers usually must found. Likewise, to exit a larger position, the average price increases as well since to accommodate the size, traders must find larger number of buyers.

On the converse, someone like Warren Buffet has a considerable amount of funds to invest, and with that buying power, he negotiates very favorable terms and pricing on shares of companies in need of capital. However, only the giants can maneuver like that when no other funds have the interest or available funds. In most cases, investment interest is abundant on good, solid companies.

And with a greater number of dollars to manage, as funds get larger, finding good investments becomes more difficult so managers either must invest in lower quality investments or sit more funds on the sidelines.

Furthermore, if your personal amount to invest is too low, there is less of an ability to diversify investments which, in the long haul, helps returns. On the contrary, though there are limits to the affects of diversification once a certain amount of different investments is used, and therefore, smaller amounts in the same number of investments can yield good results with less risk.

• **Nobody Cares About Your Money More Than You.** If a fund manager loses your money, certainly they are responsible and remorseful. However, based on many factors, they may simply just be able to raise additional funds from other sources to continue their business. However, this does not help to recover your lost funds as they move on the the next source. We have known many sincere money managers that have lost substantial amounts in the market only to close their existing shop after the loses, only to begin a separate new fund with a brand-new slate.

Considering that, common sense often comes into play when messages do not quite 'smell right', which is why often grandmothers using good ole' common sense are at times able to outperform some very high-quality managers. In addition, with the quant and formulaic investors, aka 'algorithm-based' traders, capitalizing on a certain mispriced behavior patterns, the ups and downs and volitility only increases the noise when stock prices which no meaningful change to the company.

In the long run, fundamental based research with common sense on the quality of the company has a larger affect on the investment return.

• **Fees and Cost Structure.** Managers salaries and benefits must be paid and Class-A building rents do not pay for themselves. As a result, there is a real cost of managing funds. In addition to the upkeep fixed costs, there are the marketing costs associated with the fund to gain interest from personal money managers which can be a greater expense. Certainly, some funds and vehicles are worth the investment while others are not. So, while these managers are experts and professionals, they have a higher hurdle rate to overcome to match your personal investment rate.

• **With Greater Dollars, Investment Risk Greater.** To enter a larger block of publicly traded shares in a company, all things being equal, an investor may need to pay a higher price on average to enter that given position. A larger number of sellers usually must found. Likewise, to exit a larger position, the average price increases as well since to accommodate the size, traders must find larger number of buyers.

On the converse, someone like Warren Buffet has a considerable amount of funds to invest, and with that buying power, he negotiates very favorable terms and pricing on shares of companies in need of capital. However, only the giants can maneuver like that when no other funds have the interest or available funds. In most cases, investment interest is abundant on good, solid companies.

And with a greater number of dollars to manage, as funds get larger, finding good investments becomes more difficult so managers either must invest in lower quality investments or sit more funds on the sidelines.

Furthermore, if your personal amount to invest is too low, there is less of an ability to diversify investments which, in the long haul, helps returns. On the contrary, though there are limits to the affects of diversification once a certain amount of different investments is used, and therefore, smaller amounts in the same number of investments can yield good results with less risk.

• **Nobody Cares About Your Money More Than You.** If a fund manager loses your money, certainly they are responsible and remorseful. However, based on many factors, they may simply just be able to raise additional funds from other sources to continue their business. However, this does not help to recover your lost funds as they move on the the next source. We have known many sincere money managers that have lost substantial amounts in the market only to close their existing shop after the loses, only to begin a separate new fund with a brand-new slate.

Considering that, common sense often comes into play when messages do not quite 'smell right', which is why often grandmothers using good ole' common sense are at times able to outperform some very high-quality managers. In addition, with the quant and formulaic investors, aka 'algorithm-based'

traders, capitalizing on a certain mispriced behavior patterns, the ups and downs and volitility only increases the noise when stock prices which no meaningful change to the company.

In the long run, fundamental based research with common sense on the quality of the company has a larger affect on the investment return.