

## **[Searching for superior investment fund managers is a waste of your money and time](#)**

**Category : Financial Decision Rules**

**Published by [The Skilled Investor](#) on Mar/17/2007**

### **Searching for superior investment fund managers is a waste of your money and time**

*Summary: A previous article, ["The Solution - ONLY follow financial strategies that are scientific, passive, diversified, savings focused, risk controlled, low cost, and tax efficient,"](#) suggested that individuals are much better off with a well-considered financial viewpoint. A stable set of financial beliefs can help you to keep focused and on track throughout your life. This follow-up article discusses the reasons why selecting mutual funds and ETFs based on the characteristics of fund managers is a waste of your valuable time and money. You cannot reliably identify beforehand professional investment managers who will deliver superior performance at a reasonable price in the future. You cannot hire them at a price that is lower than their potential value-added. Superior past investment fund performance DOES NOT predict superior future investment performance. Nobody has proven that there is ANY reliable way to identify beforehand which managers will have superior future performance. If you cannot predict better future performance based on past results, how could you predict them based on manager characteristics? Paying attention to managers of funds is just a useless financial celebrity sideshow, which is focused on the past and not the future. Do not waste your time and money. (See: [Distinguishing between true investment skill and luck](#)) Investing is not a matter of being smarter. A huge number of very smart professional and amateur investors play the global securities markets constantly. In aggregate, all investors set market values, and their competition makes relative skill largely unimportant in the long-term. Higher skill negates higher skill in auction markets, when the whole world is watching and playing. Those who seemingly have had superior performance in the past predominantly were just lucky – no matter how they might score on an IQ test or how much education they may have. (See: [Chance creates the illusion that investors can beat the stock market](#) and [How stable have Morningstar Ratings for mutual funds been over time?](#)) However, professional investment portfolio managers tend to do somewhat better than amateur portfolio managers do. The scientific investment literature indicates that, generally, this is probably not because professionals are more intelligent or significantly better than amateurs are at predicting future values related to the securities they select. It seems instead to be more a matter of error control. Individual investors tend to perpetuate their investment management errors, while professionals seem to correct errors more quickly and systematically. Securities professionals usually are well educated and experienced. They work full-time in groups using globally networked real-time information and many have automated analytic applications. Generally, they have a significant edge over amateur investors. While professional competence can vary rather widely, the experience, competence, and profit motive within professional organizations tends to correct errors rather than to perpetuate them. (See: [The illusion of superior professional investment manager performance](#)) Unfortunately, amateurs cannot exploit this rather narrow performance differential of professionals over amateurs. Beforehand, you cannot reliably identify professionals who will turn out to be better in the future using any method that is associated with the characteristics of the managers themselves. Professionals’ education, years of experience, time in a position, and other personal attributes*

have not been demonstrated to predict performance. Paying attention to the background of investment manager is just a waste of your valuable time. All that matters is the investment result of the portfolio managed by any professional, and the only reliable predictive variable tends to be investment management costs. When professional management costs are higher, then their net returns tend to be lower and vice versa. Because you cannot reliably predict which investment professionals will have superior performance in the future and because you cannot hire active professionals at a cost that is lower than their value-added, the only solution is to sidestep the game. When you buy only low-cost, passively managed index funds and ETFs, you do not have to play the futile and time consuming &ldquo;pick a superior manager&rdquo; game. (See: [Scientific mutual fund and ETF screening criteria -- a summary](#) and [The Solution - Only follow financial strategies that are scientific, passive, diversified, savings focused, risk controlled, low cost, and tax efficient](#))

---

SCROLL DOWN FOR LINKS TO OTHER ARTICLES IN THIS CATEGORY