

February 2007

Lessons from the Money Masters

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Anyone who has lost money in the markets wonders at time or another if their fortunes would have been different had they had the benefit of the wisdom and experience of the world's most successful investors.

So it was useful to see what insights were on offer when an Australian newspaper published a series of interviews with a group of legendary investment managers it dubbed the 'Global Money Masters'.¹

What was striking about many of these generally elderly subjects was the humility they had acquired from decades of working in finance and their acceptance that trying to 'beat' the market was a fool's game.

There wasn't much talk from the battle-hardened warriors of chasing 'exotic alpha' or employing sophisticated timing strategies or sector plays.

Indeed, the advice variously was to exercise discipline, remember that risk and reward are related, focus on asset allocation, remain diversified, and stay aware of costs and taxes.

This sort of sage advice may fail to stir the hearts of investment Don Quixotes who would prefer to spend their money tilting at windmills, but for those more interested in actual results it carried the currency of truth.

Nowhere was the learned humility better expressed than by British-born fund manager Jeremy Grantham, who described investment as "a wonderful business in which your growing egomania is normally nipped savagely in the bud as market fortunes rotate".

And in a nice riposte to those who attribute investment luck to skill, Grantham said his firm was formerly considered "smart and occasionally brilliant. Now we have once again become a bit dopey, although not as entirely stupid as we have been in the past".

No-one could attach the stupid label to Warren Buffet, a man considered to be the world's single most important investor and the second wealthiest individual on the planet, according to Forbes magazine.

Yet in hundreds of articles, books and speeches, Buffet's advice to investors has remained the same: Stop trying to predict the stock market, keep trading to a minimum and focus on the long-term.

"We are not good at predicting the markets and we spend little or no time thinking about it," he told shareholders of Berkshire Hathaway.

So if even the celebrity investors can't tell us what will happen next, how do you add value? That question was put to another market legend, Charley Ellis, who founded

consultancy Greenwich Associates and who is considered one of the great observers of Wall Street.

His answer was disarmingly simple. Most value was added by the asset allocation decision, he said. The least value was added by picking stocks. Yet if you ranked the various factors by cost, the order was reversed.

"The best way to achieve long-term success is not in stock picking and not in market timing and not even in changing portfolio strategy," Ellis said.

"Sure, these approaches all have their current heroes and war stories but few hero investors last for long and not all war stories are entirely true. The great pathway to long-term success comes via sound, sustained investment policy, setting the right asset mix and holding onto it."

It seems that like a lot of things in life, the smartest investment advice is the simplest.