

## Physician's Financial News

*Fund Manager Ethics*      By Shirley M. Mueller, MD      Published on May 12, 2008

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*"I'd rather take out my own appendix with a rusty spoon than tell my clients what they're paying in fees."*

—Anonymous money manager



In the *Financial Times*, April 3, 2008, a 34-year-old United Kingdom fund manager asked for help with his morals. He wrote to Lucy Kellaway, author of *The Problem*, for the *Financial Times*. This was his question:

***"I am a fund manager in the UK. My job is great: flexible and well-paid. My problem is that I don't believe it is possible to outperform other fund managers with any consistency. I believe the industry is based on the lie that fund managers add value through skill rather than luck—which makes it hard to keep motivated. Should I move—even though I can't think of anything else I want to do—or should I accept the idea that work is not meant to be meaningful?"***

Ms. Kellaway cautioned the UK manager to do what seemed to be best for him. Keep his present job. If he didn't, he could well make less money working outside the financial industry. He probably would have to work harder. Misery and regret at leaving his cushy job, though questionably ethical, could follow.

Is it okay to lie to yourself about the importance of what you are doing if it serves you better than anyone else? Thousands of people in the investment industry, if they allow themselves to, must face the same dilemma because they can't "beat" the market, which is the very thing that they are being paid to do.\* How do they respond to this? One supposes that most must rationalize or suppress any uncomfortable feelings that could jeopardize their very livelihood.

But David Swensen, the manager of Yale's endowment since 1988 is more candid. He has nothing to lose, unlike managers that shepherd client's money and receive their income from it. He is above this because he is directing university endowment money and does not have compensation from private client management to protect.

According to a February 17, 2008 *New York Times* article by Geraldine Fabrikant, "For most people he (Swensen) recommends a very basic approach: use index funds, exchange-traded funds and other low-cost instruments, and stick to your long-term asset allocation\*\*—even when the markets are in tumult." In other words, he thinks basic, plain vanilla is best for the majority of us. In fact, most can do it themselves. Money managers aren't needed for this straightforward approach.

Harvard's long-term stellar endowment manager, Jack R. Meyer, has made statements similar to Swensen. He, too, had nothing to lose because he also was being paid by a University, not private clients. In a 2004 *BusinessWeek* interview, Meyers said, "Most people think they can find

money managers who can outperform, but most people are wrong. I will say that 85% to 90% of managers fail to match their benchmarks, if you properly specify their benchmarks.”

These views from important money managers (Swensen and Meyer) bring up an important issue. When university money managers (who don't have a secondary gain in the outcome) question whether most people really need investment managers, should we be wondering too? \*\*\*

\* 80% of managers of mutual funds perform *worse* than their relevant index in any one year.

\*\* [Asset allocation](#)

\*\*\* For some ideas on basic self investing, see [For Time-Starved Doctors](#) and for a more sophisticated approach, [The 15% Solution: A Critical Investing Concept](#).