

From Physician's Financial News

How to Invest Like a Star

By Shirley M. Mueller, MD Published on February 22, 2008

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Harvard University has a reputation. And, it isn't just its legendary history and education. It's also the money made in its Harvard Management Company. This is the in-house firm that invests billions for the Ivy League school.

Its most long-term stellar manager, Jack R. Meyer, made a 15.9% annual return over the 10 years from 1994 to 2004. At the same time, his competitors generated just 10.1%. He used a model portfolio, though it hardly resembled one that would be routinely used by an individual investor. In a December 2004 interview, though, Meyers did address what those of us who manage our own money should be doing. This is what he said to William Symonds from BusinessWeek.

How can individuals find managers who can beat the street?

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.

That's pretty pessimistic.

Yes. But because managers have fees and incur transaction costs, you know that in the aggregate they are deleting value. The investment business is a giant scam. It deletes billions of dollars every year in transaction costs and fees.

So what should individuals do?

Most people should simply have index mutual funds to keep their fees low and their tax down. No doubt about it.

To what extent do you time the market—by shifting your asset allocation in anticipation of a big move in stocks, for instance?

As a practical matter, we don't do much of that. It's the romantic thing to do, and it's what people like to talk about at cocktail parties. But frankly, we don't think anyone is very good at it. It's a difficult way to make money.

Warren Buffett says: "optimism is the enemy of the rational buyer." Optimism is not necessarily restricted to the use of market timing. It can also be true of overconfidence in what a money manager can do. To quote Jack Meyer, "because managers have fees and incur transaction costs, you know that in the aggregate they are deleting value. The investment business is a giant scam. It deletes billions of dollars every year in transaction costs and fees."

Note: Meyer left Harvard in 2005 to start his own firm.

About Shirley M. Mueller, MD

Dr. Shirley Mueller is a physician turned financial consultant and investment educator. She teaches others how to invest their own money using a Noble Prize-winning financial strategy. Her fee is hourly, not a percentage of assets. She welcomes comments at ShirleyMMueller@MyMoneyMD.com. For more information, visit her website at MyMoneyMd.com

