

Excess Returns

Insights for Investment Marketing and Sales Professionals

Marketing Strategy for Foxes and Hedgehogs | March 2021

The world we live in places a high value on focus, specialization and expertise. What then is one to make of investment companies that describe “generalist” research coverage as an advantage? This issue of *Excess Returns* considers how investment firms can tell a stronger story about being generalists in what remains a highly specialized world. I also consider how firms offering “domain expertise” can address the perceived downside of too much specialization.

With best wishes,



Liz Hecht, Founder and Principal

In This Issue

[Fox or Hedgehog?](#)

[The Private Equity View](#)

[Range](#)

Alpha Partners is an investment marketing firm offering custom research, marketing communications and presentation coaching. Our goal is to create alpha (excess returns) by helping investment firms win, keep and diversify assets under management.



Alpha Partners LLC

435.615.6862

www.alphainvestmentmarketing.com

Fox or Hedgehog?

I live a life rich in contradiction. One minute I'm on the phone with a CIO who says, “We're all generalists here, and we think that's a significant advantage.” The next I'm learning about a research team that cultivates specialist expertise among its analysts to ensure comprehensive coverage of global opportunities.

The rationale for specialization makes immediate intuitive sense. After all, we live in a complex, competitive world where expertise has long been revered. Why not try to gain an edge through specialization? When I had my right hip replaced a few years ago, did I want a “generalist” to perform the surgery? No, I did not.

As an investment marketing professional, I believe that blanket statements about “a generalist approach”—often made as being self-evident without explanation or elaboration—can make an investment company seem under-resourced, unsystematic and even somewhat flaky.

Sometimes I venture to ask, “Why is a generalist approach a good thing?” Typically, I'm told that specialists are compelled to invest in a given industry even when it's unlikely to perform while generalists can take a pragmatic, “go-anywhere” approach. Fair enough, I always think, but surely there are organizational structures that adjust for this shortcoming (e.g., financial reward for staying out of an underperforming industry).

In fact, there are abundant reasons for a generalist approach to investment research. Here are just a few: (1) avoidance of facile, limiting categories when the best investments often can be found between categories or outside of any category, (2) the ability to forge sharper cross-industry comparisons, (3) better understanding of new technologies used across many different industries, and (4) insights based on seeing opportunities in the context of the broader universe. As documented in [Range](#) by David Epstein, “the most successful experts also belong to the wider world ... breadth often supports insights that cannot be attributed to domain-specific expertise alone.”



© Danny Brown

While the hedgehog single-mindedly pursues one well-defined goal, the fox moves swiftly in search of different opportunities, shifting tactics to succeed in changing conditions. In the investment world, some think it's best to be a fox while others champion hedgehogs.

Many Things Versus One Big Thing

The generalist/specialist debate has ancient roots in a line from the fragments of the Greek poet, Archilochus: “The fox knows many things, but the hedgehog knows one big thing.” In his 1953 essay, “The Hedgehog and the Fox,” philosopher Isaiah Berlin noted that, while interpretations vary, the ancient poetry fragment may simply mean that “the fox, for all his cunning, is defeated by the hedgehog’s one defense.”

Berlin invoked the Archilochus fragment to dramatize two opposite intellectual approaches to understanding the world: one binding philosophy versus diverse, flexible ways of thinking. Modern interpretations variously applaud the fanatical focus of hedgehogs (“the Hedgehog Concept” celebrated in *Good to Great* by Jim Collins) or the protean skills of the fox (as described by David Epstein in *Range*).¹

So in the investment world, is it better to be a hedgehog or a fox? Based on the reading I’ve done about specialist and generalist approaches to research, I believe the answer is (1) **it depends**, and (2) as is so often the case in life, **a blend of both** tends to be better than one or the other:

It depends on the asset class or investment mandate. See [The Private Equity View](#) in this issue .

A blend of both. Investment companies often are structured to integrate deep expertise with broad generalist perspective. Many portfolio managers fit this model, having cut their teeth as analysts specializing in specific industries before becoming PMs responsible for a universe of investments.

Richer, More Nuanced Stories

Whether an investment firm follows a generalist, specialist or blended research model, most need to tell richer, more nuanced stories about the rationale driving their research structure. Potential investors want:

- Stories that explain not only how a team is structured but also why,
- Specific examples dramatizing the benefits of a company’s research model, and
- Something more than an org chart peopled with the standard parade of CFAs and PhDs.

In sum, generalist investment teams should stop generalizing about what it means to be a generalist. They should be prepared to answer questions such as, “How can you be systematic in providing coverage of global opportunities in your space?” Specialist teams, meanwhile, should be able to show what specialized knowledge, experience and networks can mean to their investors. **Specialist investment teams should be ready to answer questions such as, “How can we be sure that your team of experts is not missing the bigger picture?”**

A closing case in point about how the best specialists incorporate generalist perspective: When asked to read a draft of this article, my husband observed that the surgeon who replaced my hip is good at what he does precisely because he brings a generalist perspective to his specialty, bridging across disciplines to provide his own solution customized to the patient. “He never refers me to one specialist after another the way many doctors do,” my husband said. “He gets the big picture. And by the way, he also does knee replacements.”

The Private Equity View

The answer to the question, “Generalist versus specialist?” may depend on the asset class. In private equity, for example, domain expertise is still prized as a key advantage in creating value. A 2014 Cambridge Associates study found a clear positive return impact for sector specialist firms, linking their outperformance to competitive advantages in sourcing/portfolio company selection, post-acquisition value-add and successful exits.² But even within an asset class such as private equity, views vary. James Andersen of Clearview Capital argues in favor of foxes over hedgehogs specifically in the lower middle market.³ “Most industry specialists,” writes Mr. Andersen, “bring a narrower perspective in terms of what’s required to drive growth, whereas generalists with a more expansive point of view focus on the success factors that apply across different industries and markets.”

Range

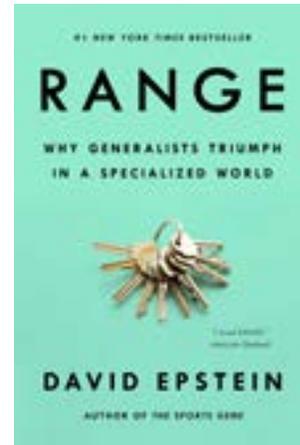
“Incredibly, the hedgehogs performed especially poorly on long-term predictions within their domain of expertise. They actually got worse as they accumulated credentials and experience in their field. The more information they had to work with, the more they could fit any story to their worldview.”

—From *Range* by David Epstein

What do some NASA engineers and hotshot wilderness firefighters have in common? If you read David Epstein’s *Range: Why Generalists Triumph in a Specialized World*, you will know the answer: Fatalities resulting from an unwillingness to abandon familiar tools, a shortcoming shared by many specialists.

In discipline after discipline, even disciplines such as cardiology where one would think specialization would convey a decisive advantage, Mr. Epstein documents the downside of too much specialization without the balancing breadth of perspective. “Everyone is digging deeper into their own trench and rarely standing up to look the next trench over, even though the solution to their problem happens to reside there,” he writes. This is a great read for anyone who wants to avoid the dangerous know-it-all entitlement that expertise can convey.

Range also gives hope to those who may fear being replaced by computers. Computers (along with chess players, classical musicians and golfers) excel in what Mr. Epstein describes as “kind environments” where the same patterns repeat and the rules are well defined. By contrast, in “wicked environments” where things change fast, often for unknowable reasons, “we humans,” writes Mr. Epstein, “are still crushing the machines.”



1. Paradoxically, in the 2001 book *Good to Great*, Jim Collins describes Charles Darwin as a classic hedgehog given his focus on natural selection while in *Range*, published last year, David Epstein describes Darwin as a classic fox: “Like [other] generalists and polymaths, he got bored sticking in one area ... For his paradigm-shattering work, Darwin’s broad network was crucial.”
2. In a November 2014 research study, “Declaring a Major: Sector-Focused Private Investment Funds,” Andrea Auerbach and Josh Zweig of Cambridge Associates found that sector specialists handily outperformed generalist investments over a 10-year time period with sector specialist investments outperforming across the spectrum of fund sizes. A Cambridge spokesperson recently confirmed that the study authors’ thesis regarding private equity sector specialists remains unchanged.
3. “The Case for Generalist Investors,” published in *Middle Market Growth*, June 11, 2019.

[Questions? Comments? Requests? Click here.](#)

[Click here for the Excess Returns archive.](#)



ALPHA PARTNERS LLC

1062 Oakridge Road South
Park City, UT 84098

www.alphainvestmentmarketing.com

LIZ HECHT

435.615.6862
435.901.1546 (cell)

liz@alphainvestmentmarketing.com