

# Excess Returns

Monthly insights for investment marketing and sales professionals



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Virtually all investment companies define “discipline” as a strength or even a competitive advantage. This issue of *Excess Returns* considers an important manifestation of discipline — being systematic — as it applies to all aspects of running an investment firm, from portfolio management and client service to sales and marketing.

With best wishes,

Liz Hecht

Founder, Principal and Director of Research

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*Alpha Partners is an investment marketing firm specializing in research and presentation strategy. Our goal is to create alpha (excess returns) by helping investment firms win, keep and diversify assets under management.*

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## Tillie

The story I am about to tell happened a long time ago, but I remember the details vividly. I was in a cab on the FDR Drive in New York City on a brutally hot day when I saw a Doberman/Rottweiler mix sitting by the side of the highway, panting and looking distressed and disoriented. There was nothing in sight but fast-moving traffic, asphalt ... and this dog. She was wearing a bright-red harness. I got out and went up to her. She sniffed my hand, then let me lead her by the harness while the two of us hailed another cab. She had no tags and none of the New York shelters I checked had anyone looking for her, so I set about finding her a new home.

As part of my volunteer job a few weeks later, I happened to be confirming information about all of the animal shelters in our area for a flier put out by our local dog owners association (“What to do when you find a stray dog?”). I thought I had called all of the New York City shelters, but in double-checking found there was one I had missed. I was tired at the time and the following craven thought crossed my mind, “Ahh, I don’t really need to double-check everything. The information is probably fine as is.”

But I am a systematic soul by nature and I have long worked in the investment world, where discipline is critical. So I called this shelter and while checking its phone number thought to ask, “Hey, you didn’t have anyone come in looking for a Doberman/Rottweiler mix lost a few weeks ago, did you?” “*Oh my God, yes!*” said the woman, “*Was the dog wearing a red harness?*”

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## How Investment Companies Can Be More Disciplined

Usually the rewards of being disciplined are not as immediate as helping a family find their lost dog. But recalling this experience makes me think of the many ways in which discipline matters in my field:

**Investment process description and implementation.** Does your firm document the investment process step by step in writing and does the investment team follow the process consistently as documented? Does the team adhere to portfolio diversification guidelines or is a certain fuzziness occasionally allowed? Does expediency sometimes trump discipline? Does the sell discipline provide a true framework for action or is it merely a series of generic reasons for sale, entirely subject to personal interpretation — “we find a better idea,” “valuation is realized” or (my personal favorite) “fundamentals have deteriorated.” Who does what when and are these actions really performed systematically?

**Results measurement and analysis.** When the investment process does not work, does the investment team know why? Or are they twisting in the wind? I have spent many hours over the years crafting credible answers to questions such as, “Why are you underperforming and what do you plan to do about it?” and “What have you learned from your investment mistakes?” I can usually tell when the answers make sense or when they consist mainly of hope with a dash of spin. Real answers tend to come wrapped in research and analysis — systematically measuring where performance comes from — and the firms that tend to measure results in one area (investing) also tend to measure results in other areas (client service).

**Information sharing.** A portfolio specialist once told me that salespeople and client relations professionals at his firm did not receive bonuses until they had updated their notes in the company’s database. “Wow,” I thought, “this is treating them like children — as in, ‘You can’t have any ice cream until you do your homework.’” The reality, though, is that many client-facing professionals do not update their company’s database routinely or in depth. Our company frequently asks for database notes about a specific product. Sometimes, the information we receive is stellar — detailed observations, insights and feedback that provide a valuable history of market interactions. Too often, though, what we get is unintelligible and/or completely lacking in information value.

**Editorial standards.** Does a professional proofreader review every document your firm sends to clients, consultants and prospects? Does your company follow a style sheet to ensure accuracy and consistency? (See [Special-Ops Editing](#) for more on the importance of a style sheet.) Are all facts checked in every document? In my experience, rare is the investment company that can answer “yes” decisively to all of these questions. There are many different categories of people who are likely to be annoyed by shoddy and inconsistent editing: (1) people who care about language, (2) people who make their living as teachers (think decision-makers at university endowments and state teacher

retirement funds), (3) people who despise verbosity (which usually results from nonexistent or sloppy editing) and (4) people who value quality and consistency and are offended (whether consciously or subliminally) by its absence. Hmm ... that sounds like just about everyone, doesn't it?

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The dog's name was Tillie and her owner had been calling her local shelter frantically for several days after Tillie ran away en route to the vet. The owner and her entire family (mother, father, sisters, brothers and even a few cousins) came to bring Tillie home. There was much hugging and weeping and they gave me a sizable contribution for our dog owners association.

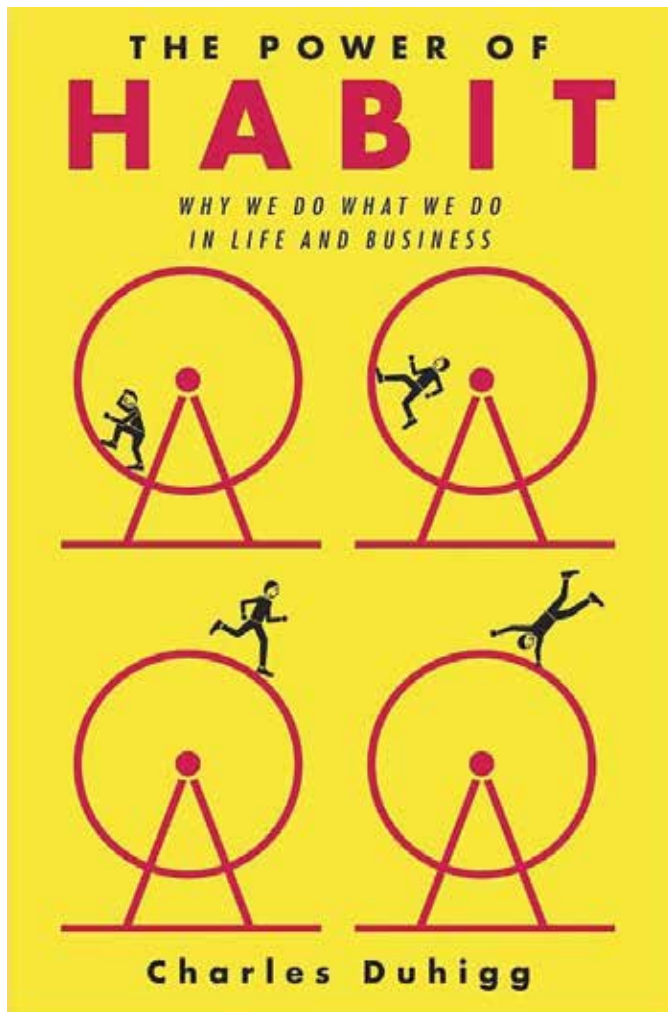
If I had not checked that one fact in that one document (while feeling tired and not wanting to be bothered), Tillie most likely would have been placed in another home, never to be united with her family. But as I give myself a pat on the back for this one disciplined action, I also start thinking about all the different ways I can become more disciplined in running my own business and in helping my clients to do the same.

## Special-Ops Editing

A friend who always sends me cool Internet links recently provided an excerpt from an email sent by author [Robin Sloan](#) about his editors at Farrar, Straus and Giroux. Mr. Sloan describes the use of a style sheet to ensure accuracy. A time line is created. Character descriptions are cross-referenced. Inconsistencies are culled or corrected. Here is how Mr. Sloan describes the rigor and efficiency of his editorial team:

*"FSG's copy-editing team is like a special-ops squad. Clear the area! Check for bombs! Here's the map! Go go go! I'm the timid informant being shepherded to a safehouse by this super-competent crew, and once I'm inside, safe from harm (and spelling everything consistently) they'll head right back out into the firefight."*

The intense discipline described here underscores the need for higher editorial standards in the investment world. All investment companies should have an updated style sheet that serves not only as a guide to editorial consistency but also as a guide to consistency of the story. For instance, the special-ops editors at Alpha Partners might discover that the same quantitative investment model is sometimes described as a "relative value model" and other times as an "intrinsic value model." At best, prospective investors are confused by such inconsistent labeling and at worst they may suspect (probably correctly) that the investment process is not implemented consistently.



## The Power of Habit

*The Power of Habit: Why We Do What We Do in Life and Business*, by [Charles Duhigg](#), explores the role of habits in creating change. I love this book for several reasons. It shows how researchers reinterpret their findings to shift strategy, turning a product with disappointing sales into one that earns a billion dollars a year. It tells the story of how changing a “keystone habit” revitalizes the culture and earnings of a major corporation. Perhaps best of all, it provides invaluable guidance for individuals seeking to replace bad habits (smoking, drinking, overeating or nail biting) with good ones. My favorite part of the book is the section describing how “small wins fuel transformative changes.” If you are serious about creating change, in yourself or in your organization, you should read this book.

*In The Power of Habit, Charles Duhigg describes how changing one habit can create “a chain reaction, starting a process that, over time, transforms everything.”*