

## Finding a 'Tom Brady-like' Investment Manager

Are you a fantasy football fan? This virtual competition enables one to create a team by compiling star players from varying teams. Trades may be made during the season to attempt to bolster ones roster and improve their standings. A critical aspect in fantasy football is to select players that should do well, *before they do!*

I have never indulged in this harmless activity for the simple fact that I cannot bring myself to select and then root for any player whose good performance could undermine my beloved Steelers. For example, I have followed with much interest, the success of Denver's polarizing quarterback (QB), Tim Tebow this season. Yet my admiration will abruptly halt during the Jan. 8th Broncos vs. Steelers playoff game!

Most fantasy footballers would have loved to draft all-pro Peyton Manning, QB of the Indianapolis Colts, for their 2011 roster. Yet who could have predicted that a neck injury would sideline him for the entire season and unfortunately, wreck their fantasy team!

Finally to Tom Brady of the New England Patriots (*there is an investment principle forthcoming*). He has led his team to three Super Bowl championships thus far, the most of any current QB. Surely you would want him as your signal caller for your fantasy team, right?

Does fantasy football relate at all to investing? Sure it does, since many investors competitively attempt to "*beat the market*" using asset managers touting good past performance, with the belief that said managers will continue to do well going forward.

Yet the odds are stacked against the investor choosing an investment manager to generate higher returns through active management (*i.e. frequent buying and selling*) compared to simply and passively investing into the overall, broad-based markets, such as an S&P 500 index fund or any other number of available indices.

Like fantasy footballers, *fantasy investors* often choose "*Tom Brady-like*" managers, with past performance that has exceeded market returns for some time period. Yet if and when that manager does not perform well going forward, many fantasy investors shout "*boo*" and look to replace their once revered manager!

To be fair, there will always be active money managers who deliver above market performance. The problem is, *you cannot predict, nor is there a guarantee*, that their 'winning streak' will continue on into the future. Statistics show that in a given year, **upwards of 2/3 of active managers do not outperform** the passive, index benchmarks that they are measured against.\*

To rely on your ability, much like the footballer, to select and maneuver among active money managers, thinking that you can consistently "*beat the market*", instead of simply pursuing an asset allocation-based strategy and passive management, which attempts to closely track market returns, then you must also believe:

- *That financial markets are not efficient and stocks are often mispriced.*
- *That successful, active stock managers exist and will continue to demonstrate their superiority in terms of identifying mispriced stocks and timely buying underpriced and selling overpriced ones.*
- *That you are able to identify these Tom Brady-like managers and/or discover future stars in advance, while also knowing when to trade them.*

Since the odds are against selecting and switching managers optimally, we adhere to the principle that the foundation and majority of one's portfolio should be allocated via a passive, diversified, long-term strategy. That's our reality, which we wholeheartedly believe, trumps fantasy!

\* Source: Symmetry, Active vs. Passive Study, 5-17-11

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