



# AlternativChronicle

## The Reason We Worry About Investing



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#### ASI — What we do:

Alternativ Solution Inc. offers consulting on capital market issues for institutional investors such as pension and endowment plans. It also offers manager assessment and risk review of various products. The firm also offers financial education to Boards of Directors.

ASI focuses on the asset side, working with clients to achieve better investment results while containing risk.

Projects include developing investment policies, asset mix audits, investment overhaul, LDI, product evaluation, money manager search, infrastructure / private equity, and portfolio transition.

Mr. Klar is a member of the York University Pension Plan investment committee which provides investment and governance oversight to the \$1.5 billion dollar plan.

....Cheers, GMK

Several news stories made me reflect on why so many of investors are unhappy with their investments. In a nutshell, it's the results. They're simply not as good as desired or needed.

That's not entirely surprising. Most individual investors are neither well-trained nor temperamentally well suited for this activity. Yes, that's a bold statement. And no, I am

high levels of professionalism, discipline or rigour. Illogical views or bad behaviors would not be tolerated. Nevertheless, strange events occur institutionally too.

What drives these destructive behaviors? The root cause is identical for individuals and institutional investors . It's a primal fear of underperforming one's peers or the chosen benchmarks.

This altered goal leads to shorter asset ownership periods and results in increased activity to bolster returns. This causes higher volatility.

Another ingredient fuels volatility — instantaneous global media coverage of anything remotely newsworthy. The result is a Pavlov-like reaction.

**Conclusion:** Investors today are in a trap. They should be

**Again this year, I am fund-raising for Alzheimer's Research by playing hockey with former NHL greats in the upcoming 2013 Scotiabank Pro-Am.**

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not trying to be insulting.

The fact is that many people vastly over-estimate their abilities and lose by playing. It's similar to those who go to Vegas expecting to beat the casinos (at the very games the casinos designed). Not likely. But the delusion persists and is even promoted by the city itself. Smart !!

And what about the institutional world, are these negative characteristics found there too? Or are institutional folks immune? Here's the facts. First, investment folks are extremely well-educated, highly analytical, genuinely smart and quite articulate. Second, they work in highly structured rule-based environments. Lastly, they often work in groups which impose

For individual investors, underperformance might lead to delayed retirement, a more austere lifestyle or other negative connotations. For institutional investors, it mainly translates into job risk. One commonality is that investors despise being judged, which is ironic since the investment world has designed easy tools for just that.

At the risk of gross oversimplification.....few managers like having the performance spotlight shined on them because only a handful are able to generate consistently strong results.

And herein lays the core problem. In our effort to avoid being judged harshly, everyone actively seeks ways to beat the others. The upshot is increased active decisions.

focusing on long-term success but are being forced to focus more and more on volatility. Almost everything written by advisories, media outlets and professional analysts lead us to this. And that's perverse.

As a member of a very successful Pension Fund committee, I can attest to the value of taking the long-term perspective. In an investment world with high volatility, we stay focused on the long-term. Results are good.

The dichotomy between the short-term and long-term is what causes investors to worry. Does Warren Buffet fret about next quarter's investment returns? No way. That's due to his perspective. And he's a spry 82. ■