



Good Managers Can/Do Underperform

Investing is never a straight line, neither for markets nor for investment managers operating within them. For example, the vast majority of top-performing managers over a long period of time will still experience multiyear stretches of poor relative performance. Specifically, as the chart below indicates, 97% of all of the managers, whose results over the last ten years places them in the top performance quartile, still underperformed for at least a three year stretch during that decade of excellent relative results. More important, in almost half of these cases (44% precisely) the three years stretches were bad enough to place them in the bottom decile relative to their peers.

Such periods can be doubly costly for clients. Clients often lose confidence and get out after they have already suffered through the period of bad performance, but before benefiting from the recovery. In these inevitable periods of underperformance, it is often helpful to remember that poor results may not reflect a flawed investment discipline, but rather the fact that prices and values can irrationally diverge for relatively long periods of time.

Source: Davis Advisors. 163 Managers from eVestment Alliances large cap universe whose 10 year average annualized Performance ranked in the top quartile from January 1, 1999 - December 2008

