Seven Attributes of Great Performing Managers

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A multitude of best-selling business and investment management books have been published over the past 15 years. These range from Jim Collins' "Built to Last" and "Good to Great" to books on Jack Welch and "The GE Way" including his own book "Winning," as well as other books on personal and professional development such as "The Seven Habits of Highly Effective People" by Stephen Covey. It is then quite a task to identify and summarize the most important attributes that define how investment managers become great in achieving outstanding and consistent performance. Rather than focusing on the cultural aspects of managing an investment management firm that have already been covered in detail by noted author Jim Ware in "Investment Leadership," I have identified my own list of portfolio attributes that great investment managers often possess. This comes as a result of more than three market cycles and more than 1000 due diligence meetings with emerging and non-emerging firms.

My list of the most important seven attributes is as follows:

1 Specialize. Another word for this is focus. Very few firms can manage multiple products consistently well. Resources and attention spans are limited. The best practitioners in any field or discipline tend to be those that specialize. They are quicker to identify and master the detail necessary to give them an information edge over competitors. While it may be true that there is greater business risk with emerging managers who are dependent on a single product offering, it is also true that there is huge incentive for these managers to fix their product quickly in difficult market periods, relative to larger firms that are well diversified with multiple product offerings. More importantly, emerging managers have a greater incentive to keep their product competitive at all times.

2 Concentrate. Once an informational or competitive edge is identified, the benefit is harnessed or maximized by using that information appropriately to concentrate the portfolio in some manner. This can be done in various ways such as overweighting the portfolio at the stock, industry or sector (and thematic) level or by using a more quantitative multifactor approach.

3 Adhere to Capacity. One of the worst acts that any manager can commit is to exceed the capacity limits of their investment strategy or process. This is a sure way to erode returns and is a disservice not only to the firm's clients, but ultimately to the manager over the longer term. This goes without saying, yet we see it happening in our industry on a daily basis. Few managers are able to resist the temptation to take on more assets and many managers attempt to justify higher capacity limits that are artificial.

4 Measure How Value is Added. A great manager regularly monitors how they specifically add value. They establish objective and systematic internal measures that they strive to exceed. These measures and benchmarks are specific to their unique investment process. This allows them to validate the effectiveness of their research efforts and the efficiency of their investment operations.

5 Be Honest. Recognize your weaknesses. Admit and learn from your mistakes. This is often difficult for most investment managers. Egos tend to get in the way. Even when performance is good, managers who fail to do this will not be great managers for any great length of time. Eventually, the (financial) markets have an uncanny way of humbling those whose success goes to their heads. It should be added, that weaknesses are relative, just as strengths are. A firm may not appear to be weak at all, which often makes it even more difficult for a manager to be constructively self-critical.

6 Refine the Process (Constantly). Once you have identified how you add value, objectively measured it and have recognized your relative weaknesses, the next logical step is to improve what you do. No firm can stay competitive by doing exactly what they did 10 years ago or even 5 years ago. Jim Simons, founder of the famed Renaissance Technologies' Medallion hedge fund, recently stated in an interview that if they had used the same investment algorithm they used just 3 years ago, their returns for 2006 would have been 50% lower.

7 Take Calculated Risks. Great managers have a natural propensity to take calculated risks, while average managers tend to overly reduce risks, and poor managers are usually those who fail to fully understand risk. This is a very important point. Managers with an informational edge who fail to take risks tend to perform no better than the average firm. Poor managers include those who fail to take risks, take excessive risks, and those who do not measure risk. Interestingly, this is not only true at the portfolio level, but also at the organizational or business management level.

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In summary, great investment managers tend to:

- Specialize
- Concentrate
- Adhere to Capacity Limits
- Measure How They Add Value
- Be Honest
- Refine Their Process
- Take Calculated Risks

Admittedly, there are other attributes that contribute to the making of a great investment manager. Further, the presence of these seven attributes does not necessarily guarantee that one will be a great manager. However, they certainly do improve one's chances tremendously.

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