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The world is a complicated, uncertain place for investors, which makes picking the right investment manager more important than ever. As always, a lot of people are offering assurances that they have the answer - the hedge fund folks, the algorithm guys, the large mutual funds.

How do you choose? I work for a family office - one of the specialized firms that provide financial advice and personal services for wealthy, multi-generational families. One of the services we provide is helping clients choose their investment managers, and of all the many lessons we've learned along the way, the most valuable is this: You start with due diligence. Ask questions, do research and weigh the options before deciding. The same principles that any business executive would apply before, say, merging with another company are just as important in choosing an investment manager.

We begin our due diligence with quantitative analysis - data study - to measure an investment manager's record over time. As the saying goes, past performance is no guarantee of future returns. But past performance is a darned good starting point.

That kind of analysis only narrows the field, however. It gets you down to a small number of potential money managers and hedge funds, but it still doesn't tell you which one is going to be the best choice in achieving the goals you've set for your wealth.

Investing is a people business, so once we have narrowed down our possibilities, we focus on the people involved. Yes, the alpha - the risk-adjusted return on investment - is important. But we want to dive deeper than that. We want to know the person in charge. And just as important, we want to know the people around him or her - how they built their business, what their investment decision-making process is and what their vision for the future is.

One of the most important tests we apply is transparency. A company's data may look good and the alpha may even be great, but if we can't tell how they do it, we take a pass. We steered clients away from Bernie Madoff in 2002 because, as the world now knows, it was impossible to understand his business model, and that was obviously a good decision. Of course that discipline has required us to pass by many investment firms whose portfolios have exceptional performance returns, but that's a trade-off we are happy to make.

Another question we ask is whether the company is building a strong organization. Is money being ploughed back into compensation plans that retain employee dedication and loyalty, and are systems being developed and maintained in ways that grow the business?

We took a pass on one large cap value manager despite its impressive record of earnings because a closer look revealed its compensation plan contained no provisions for keeping key employees. We also discovered other things about this firm that bothered us, perhaps best highlighted by the fact that one of their best people, a particularly bright young man, was working in a tiny, windowless office - not much better than a broom closet. He was an obvious target for recruitment by a competitor, and in fact he was lured away a few months later.

We hired another large cap value manager that did well for us at first, but over time its performance was unimpressive. On one of our regular due diligence visits, we found high turnover in the front office and a back office that was no longer up to par. The turnover rate was an indicator of bad management, so we fired them and moved on to another company that did exceptionally well.

The results of doing your due diligence aren't always negative, of course. In one case, we decided to stick with an investment firm that was going through a change of leadership despite rumors that the new CEO didn't



measure up to his predecessor. We took a close look at the incoming CEO and the people around him and decided the fundamentals were still solid. It turned out to be a very good decision as the firm has been one of the best performing managers in the country since the transition took place.

Nothing lasts forever, of course, especially when it comes to investing. The world changes, people change and your needs and goals change, too. That means re-assessing your investment situation at periodic intervals.

How often? That's one of the most hotly debated questions in this field. Certainly not too often. Economic cycles operate on much longer time frames than news cycles, so you don't want to bail every time the markets have a bad month or two. Impatience and letting your emotions get the better of you can lead to a diminishment of wealth. Instead, you should assess your investment position in the light of market performance on regular intervals, say every three to five years, which eliminates the short-term noise.

Assessing markets is different from assessing your investment manager's performance, however. The due diligence you applied in choosing your manager must be ongoing to spot any fall-off in effectiveness.

There are many different methodologies in this field, and many means to success (or failure). But certain principles have universal application, the most important of which is this: There is no magic dust in investing. No one waves his hand and makes money appear - again, think Madoff. You need to choose an investment manager who will work hard and work consistently to execute a well-defined investment process in a well-run business. And you need to do your own work in constantly monitoring performance.

At our firm we tell people we're in the stay-rich business, not the get-rich business, which is why we always take the conservative approach to decision-making. When it comes to investing your nest egg, that's a sound principle to keep in mind.

Rick Pitcairn is Chief Investment Officer at Pitcairn, a multi-family office based in Philadelphia with offices in New York and Washington, DC. Pitcairn was founded in 1923 as a single family office and has served six generations of Pitcairns. The firm became a commercial multi-family office in the late 80s.