



## Financial Resource 2005

Investment & Financial Planning Insights



## Will it Work?

In 1984, Charles Ellis wrote a marvelous little book, *Investment Policy*. In it, Mr. Ellis argued that because the primary providers of investment advice were going to be large institutions, they would, in effect, become the equity market. Further, he argued that efforts by these institutions to beat the market would result in their losing ground to it. For most of the last 20 years his logic prevailed in practice. Demand, created by mass adoption of these passive ideas, fed the indices at the expense of active managers.

Since 2000, his logic has not prevailed. Because the growth of passive strategies was

secular, this change is a danger sign and is not likely to be reversed cyclically. With two years of bull market behind us, most equity investors following passive strategies have very little to show for the last 7 or 8 years. Yet, those passive strategies are still prevalent.

Today's question arises because many investors have investment horizons that are too short for the investments they have made. *Given enough time* many of these strategies will work; however, as time streams by, these investors are less able to risk fluctuations that invariably occur. There is significant risk that heavy concentration in

passive strategies makes these investors unusually vulnerable to their own investment horizons.

Now is a good time to arrange a comprehensive review of your investment policy with your advisors. Mr. Ellis' book, among its many benefits, has excellent advice for this purpose. He delves into the attitudes of investors and of advisors. He covers what subjects need to be discussed, the respective responsibilities, and how to preserve representations by both parties for future review.

No one can know in advance if what you are doing will work. Understanding what you are doing, understanding why you are doing it, and periodic formal reviews to effect any necessary changes are big steps toward getting it to work for you.

To read the full report, go to [www.financial-resource.com/BASE.asp](http://www.financial-resource.com/BASE.asp)

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