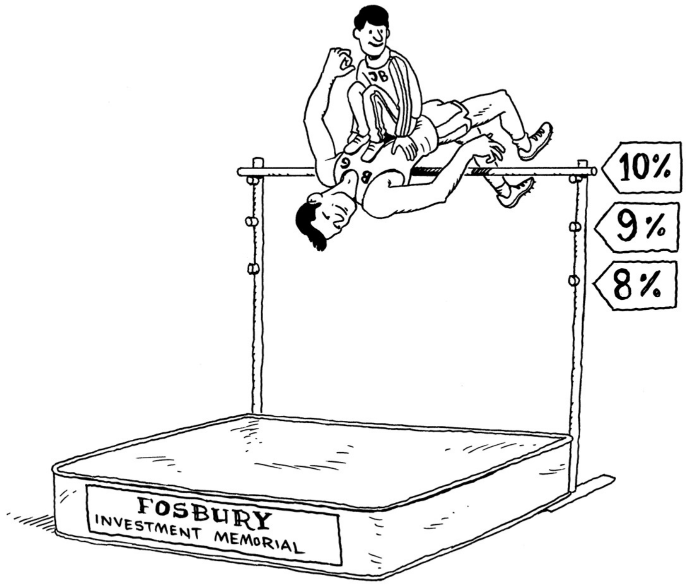
Where's Dick Fosbury?

Richard Fosbury radically changed high jump when he introduced the world to the Fosbury Flop. His approach looked quite unnatural. But it *felt* natural to Fosbury and it won him an Olympic gold medal in 1968.



This got me thinking about whether the asset management industry has had, or will have, any Fosbury-worthy innovators? To qualify I suggest that the innovation should meet four tests:

(i) The innovation has not been part of mainstream thinking;

(ii) It substantially improves upon existing results;

(iii) It becomes the default approach for most successful participants; and

(iv) The effect is enduring.

Fosbury met all four of the above. His innovation was novel, better, widely imitated and has stood the test of time.

If there was to be a *Fosbury Investment Memorial*, to whom might it be awarded? Who are the investment management contenders?

Two potential contenders spring to mind, Ben Graham and Jack Bogle.

Fosbury Contender Number One – Ben Graham

Ben Graham is the father of value investing. Value investing was certainly new, it improved on existing results and the effect is enduring.

But value investing has not become the default approach for aspiring investment managers. Why? My guess is that more professionals don't practice value investing because value investors can underperform for long periods and this tests both patience and career persistence. (There are also definitional issues with the "value" label. As Charlie Munger observed, "all sensible investing is value investing" noting that growth is a component of value. But that is a discussion for another time.)

Fosbury Contender Number Two – Jack Bogle

Jack Bogle is the father of mainstream index investing. Passive index investing was certainly novel and it substantially improved on the results of the active industry. The jury is still out on whether it will become the default mode for most capital allocators and whether the results are enduring.

Bogle's claim to the *Fosbury Investment Memorial* will ultimately be decided by the battle between the benefits and pitfalls of passive management.

Turning firstly to the benefits. On average, passive management beats active management consistently and comprehensively. The reasons are two-fold, one obvious and one less so. The obvious advantage is that the costs of active management, by definition, make the average passive result superior to the average active result. This cost drag is exacerbated by excessive active fees and the immense difficulty in choosing active talent. The less obvious advantage of passive is related to the distribution of returns. For some time now, the lion's share of positive performance is concentrated in a small number of stocks and the only way to assuredly own those stocks is to own the index.

What about the pitfalls of passive? **The main pitfall is that passive is parasitic**. It only works if active is doing the job of price discovery. Ultimately if the weight of passive becomes too heavy it ceases to be effective.

Other Fosbury Contenders?

None come to mind, but I would love to hear your suggestions. In a complex adaptive environment perhaps there can never be an investment innovation that passes the enduring test?

L Endersen – 3rd May 2017