

## Following the herd

Much of the work that we carry out in the Wealth Management team, throws light on some of the myths that shroud the investment industry.

One of the most widely held beliefs is that a highly paid fund manager can consistently identify mispriced stocks and use that information to make money for his or her clients. The investor is often lead to believe that these 'oracles' are somehow different to every other fund manager out there and that they will, therefore, provide higher returns for their investors.

Whilst this belief persists, fund managers have a relatively easy time of justifying the high charges attached to their retail investment funds. It is highly possible that there exists a small number of fund managers and brokers who are capable of this, at least on occasion.



As all of our wealth management clients are hopefully aware, our investment philosophy is based upon years of academic research on how to invest effectively. We believe that this research quite clearly shows that active fund management brings very little value to the table, in fact in the vast majority of cases the 'expertise' of the fund manager and his associated costs actually reduce the returns that the investor is entitled to over any meaningful timescale.

However, we would not expect our clients to pore over the many dusty (and it must be said quite boring) journals that evidence these findings. Neither would we expect our clients to just take our word for it. We thought it would be useful, therefore, to provide an example of just how different many of the fund managers actually are and how little investors in these funds are getting for the extra costs that they are paying.

According to a recent Bedlam Asset Management article, of the 41 brokerage firms covering Vodafone, not one shows a 'sell' recommendation. The majority are 'buy' or 'outperform'. Only one company, daring to stray from the flock, has an 'under perform' recommendation. It is entirely possible that these 40 companies could be encouraging investors to buy because they genuinely believe what they have written.

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However, in 2000 when Vodafone was at £4 per share (as opposed to the £1.28 of today), of the 52 brokers covering the company, only two had sell recommendations. The most logical conclusion is that Vodafone is a permanent fixture on the buy list of these highly paid investment specialists, whatever the share price, despite the fact that many investors have suffered very poor returns.



Vodafone remains a difficult investment proposition. The mobile phone market is nearing saturation, margins on calls and 'roaming charges' are being steadily eroded and the dinosaurs of the past, such as BT, have finally started to get their act together and are no longer the easy prey of more technology efficient companies. Why then is Vodafone so popular amongst these analysts?

The simple, if perhaps controversial, answer is the herd mentality. Very few of these highly paid individuals want to take a chance. With so much at stake, far better to match (roughly) the performance of your peers than take a chance by being different. Different can be good, if they get it right, but the rewards are transitory. If they are different and get it wrong, then an immediate separation from their six figure plus salary and generous expenses account awaits.

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**If you would like a fresh perspective on your financial position from genuinely independent professionals please contact Ben Sherwood on 01442 220713 or [ben.sherwood@hhllp.co.uk](mailto:ben.sherwood@hhllp.co.uk)**

For more information on any of the issues raised your current Hillier Hopkins contact will be happy to assist you. Alternatively, please call us on 01442 220788 to speak to one of our advisers.

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