

Case Study:
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Are Top athletes and Fund Managers really worlds apart?

Introduction

Superstar Performance. Are the causes of Andy Murray's success really that different to Warren Buffett's?

Both are superstars in their own fields; high achievers who are richly rewarded. Fans of both believe they are highly skilled at their chosen profession.

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For athletes like Murray, his coaches have a wealth of performance statistics, which allow them to understand and focus on his strengths and weaknesses as a player.

For example in his recent Wimbledon final triumph, his coaches know that while he won 72% points with his first service, he only won 42% with his second.

In contrast, in the Fund Management world there isn't the same access to and use of performance analysis.

We haven't been able to put Buffet's performance under the microscope to understand the causes of his success in the same way.

The past is a foreign country

In the past, investors have had to rely on that notoriously unreliable indicator of performance; the track record. Even though regulators and academics affirmed that no useful information can be gained from the track record, investors are stuck using them out of lack of an alternative.

Analytical techniques common in sport are now being applied to the previously hidden world of Fund Management. Analytics is providing this: analysing the outcome of every decision, to see if a Manager's performance is down to luck, or skill.

Inalytics' decision analysis

Murray and Buffett don't perform the same activity, but they both make decisions: Murray in choosing a stroke and Buffett to buy or sell. These decisions are both observable and measurable, and can be interrogated to reveal what really drives their performance.

Inalytics has analysed hundreds of millions of individual investment decisions. This has allowed us to reach a very clear understanding of what constitutes investment skill.

Our results are very clear in what makes a successful Fund Manager: they buy winners and know when to sell.

Why do so few managers achieve this star status?

While the definition of a skilful Manager is simple, fulfilling the requirements to become one is anything but. Why is this?

Our emotional and behavioural biases constantly play against us. Our natural human instinct when confronted with a winning stock is to bank a profit at the first opportunity. Our database is unequivocal on this issue – almost all Managers sell too early.

However when confronted with a losing stock, most Managers will do anything to avoid admitting a mistake and taking a loss. Knowing when to cut your losses is a very rare skill.

What is to be done?

As skill is easy to define but difficult to achieve, Inalytics is introducing the best sports training concepts to help Fund Managers overcome their behavioural biases and improve their performance.

In the same way top athletes receive detailed reports on their performance, our Fund Managers receive decision analysis which shows them what they are getting right and what areas they need to work on.

This process is just beginning and is still in development, but we have clients that are already benefiting from this approach.

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This paper was written by Inalytics

Skill does exist.

Skill generates alpha.

Skill can be empirically measured.

Skill is a differentiator.

Inalytics. The world's leading expert at identifying skill.

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