

What the Experts Say About the Failure of Active Management:

"A blindfolded chimpanzee throwing darts at the Wall Street Journal could select a portfolio that would do as well as experts."

Burton G. Malkiel, "A Random Walk down Wall Street"

"I do not believe that they (investment advisors) can identify, in advance, the top-performing managers - no one can! - and I'd avoid those who claim they can do so."

John C. Bogle, Sr., Former Chairman & Founder, The Vanguard Group

"I believe the search for top-performing stock funds is an intellectually discredited exercise that will come to be viewed as one of the great financial follies of the late 20th century."

Jonathan Clements, Columnist, Wall Street Journal

"A respect for evidence compels me to the hypothesis that most portfolio managers should go out of business. Even if this advice to drop dead is good advice, it obviously will not be eagerly followed. Few people will commit suicide without a push."

Paul Samuelson, Economist, Nobel Laureate

"When someone says, 'I intend to beat the market,' the market he is talking about is not some neutered beast; it's the sum of all the smartest, toughest minds in this business. When you come to market to sell, the only buyers you'll find are the ones who are thrilled that you just came into the cross hairs on their sniper scopes."

Charles Ellis,

"Severe underperformance of active equity managers has raised the whole issue of performance for all asset managers, including bond managers."

Brent Harris, PIMCO Managing Director

"Fiduciaries and other investors are confronted with potent evidence that the application of expertise, investigation, and diligence in efforts to 'beat the market' ordinarily promises little or no payoff, or even a negative payoff, after taking account of research and transaction costs."

The American Law Institute, Third Restatement of the Law, Trust, Prudent Investor Rule

"I'd compare stock pickers to astrologers, but I don't want to bad-mouth astrologers."

Eugene F. Fama, Finance Professor, University of Chicago

"The investment management business is built upon a simple and basic belief: professional managers can beat the market. That premise appears to be false, particularly for very large institutions that manage most pension funds, endowments, and the personal assets of most individual investors, because these institutions

have effectively become the market."

Charles Ellis, Financial Analysts Journal

"The investment business is, by definition, a business of hope. Everyone hopes that he can beat the market, even if few people actually can."

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"If "active" and "passive" management styles are defined in sensible ways, it must be the case that, (1) before costs, the return on the average actively managed dollar will equal the return on the average passively managed dollar and, (2) after costs, the return on the average actively managed dollar will be less than the return on the average passively managed dollar. These assertions will hold for any time period. Moreover, they depend only on the laws of addition, subtraction, multiplication and division. Nothing else is required. "

William F. Sharpe, Professor of Finance, Nobel Laureate

"Almost all actively managed equity mutual funds over time lose to the market averages. And those funds that do beat the average market return typically do so for only a very short period of time, and then quickly reverse course."

Internet Advisor, "The Motley Fool"

"I have personally tried to invest money, my client's money and my own, in every single anomaly and predictive device that academics have dreamed up--and I have yet to make a nickel on any of these supposed market inefficiencies."

Richard Roll, Professor of Finance, Economic Consultant & Money Manager

"Even in Japan, academic researchers and consulting firms have provided consistent evidence that the majority of actively managed funds fail to earn as good a rate of return as the index fund."

Mamoru Aoyama, Professor of Finance, Yokohama University

"People exaggerate their own skills. They are overoptimistic about their prospects and overconfident about their guesses, including which [investment] managers to pick."

Professor Richard Thaler, University of Chicago

"It's human nature to find patterns where there are none and to find skill where luck is a more likely explanation (particularly if you're the lucky [mutual fund] manager)." Mutual fund manager performance does not persist and the return of stock picking is zero"

William Bernstein, The Intelligent Asset Allocator

"The house [casino] takes a cut on each spin of the wheel, paying out less in winnings than it collects in bets. So roulette is a negative-sum game, and so is your non-index mutual fund [actively managed fund]."

Meir Statman, Professor of Finance

"When it comes down to how we are performing, we are trailing in the market's wake. People ought to recognize that the average fund can never outperform the market in total".

John Fossil, Former Chairman, The Oppenheimer Funds

"Our stay-put behavior reflects our view that the stock market serves as a relocation center at which money is moved from the active to the passive."

Warren Buffett

"Pension consultants have not made a difference in terms of adding value for clients. They are not able to prove that they choose better money managers."

Charles Ellis

"I am no longer an advocate of elaborate techniques of security analysis in order to find superior value opportunities. This was a rewarding activity, say forty years ago, when Graham and Dodd was first published; but the situation has changed...[Today] I doubt whether such extensive efforts will generate sufficiently superior selections to justify their costs...I'm on the side of the "efficient" market school of thought."

Benjamin Graham, legendary investor; considered to be the father of fundamental security analysis, the basis of active management decisions

"Gambling in a casino where the house takes 20 percent of every pot is obviously a Loser's Game...so money management has become a Loser's Game."

Charles Ellis, Financial Analysts Journal

"Lipper himself sees the futility in the annual search to find tomorrow's winning fund manager. The evidence tells us that it's probably a useless exercise. Still, hope springs eternal. The human spirit is alive and well on Wall Street, and investors are not about to stop sifting through the fund lists, looking for a fund that can consistently beat the averages."

Peter Lynch, Legendary Manager of Fidelity Magellan

"The deeper one delves, the worse things look for actively managed funds."

William Bernstein, The Intelligent Asset Allocator

"Most investors are pretty smart. Yet most investors also remain heavily invested in actively managed stock funds. This is puzzling. The temptation, of course, is to dismiss these folks as ignorant fools. But I suspect these folks know the odds are stacked against them, and yet they are more than happy to take their chances."
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Jonathan Clements, Columnist, Wall Street Journal

"I do not believe that they (investment advisors) can identify, in advance, the top-performing managers - no one can! - and I'd avoid those who claim they can do so."

John Bogle, "Common Sense on Mutual Funds"

"The economists arrived at a devastating conclusion: it seemed just as plausible to attribute the success of top traders to sheer luck, rather than skill. "

Announcer, Transcript of the PBS Nova Special, "The Trillion Dollar Bet"

"After taking risk into account, do more managers than you'd see by chance outperform with persistence? Virtually every economist who studied this question answers with a resounding "no. "

Eugene Fama, Jr., Vice President, Dimensional Fund Advisors

"There are two kinds of investors, be they large or small: those who don't know where the market is headed, and those who don't know that they don't know. Then again, there is a third type of investor - the investment professional, who indeed knows that he or she doesn't know, but whose livelihood depends upon appearing to know. "

William Bernstein, The Intelligent Asset Allocator

"Unhappily, the basic assumption that most institutional investors can outperform the market is not true. The institutions are the market. They cannot, as a group, outperform themselves. In fact, given the cost of active management--fees, commissions, and so forth--most large institutional investors will, over the long term, underperform the overall market."

Charles Ellis, Investment Policy

"Rather than making money, 240 pension funds lost about 0.5% per year on average, over the last five years through their active management activities."

The Ambachtsheer Letter

"The economists arrived at a devastating conclusion: it seemed just as plausible to attribute the success of top traders to sheer luck, rather than skill."

Announcer

"Most fund managers don't beat the S&P 500. Or if they do, very few can keep doing it for long spells. When bear markets wreak their periodic havoc, even fewer funds remain moneymakers."

2002 Mutual Funds Guide, First three sentences, Forbes Magazine

"99% of fund managers demonstrate no evidence of skill whatsoever."

William Bernstein, The Intelligent Asset Allocator

"It's just not true that you can't beat the market. Every year about one-third of the fund managers do it." He then quickly added, "Of course, each year it is a different group." Amazing! How is the average investor to

know which group of fund managers will succeed?

Robert Stovall, appearing on ABC News' 20/20 on Nov. 27, 1992