

# The *Ambachtsheer* Letter

*Research and Commentary on Pension Governance, Finance and Investments*

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## **ALPHA, BETA, BAFFLEGAB:**

### **INVESTMENT THEORY AS MARKETING STRATEGY**

*“... ‘Portable Alpha’ has taken on several meanings because it is a supply-driven term shaped by each money management ‘supplier’...”*

BernsteinResearch  
Sanford C, Bernstein & Co.

#### **Giving Alpha and Beta a Rest**

Recent perusal of a spate of investment publications ranging from the news-oriented *Pensions&Investments* and *Investments and Pensions Europe* at one end, to the more analytical *Financial Analysts Journal* at the other, has led us to conclude that it is time to give the terms alpha and beta a rest. Two specific ‘tipping points’ which sparked this conclusion were a study by BernsteinResearch’s Vadim Zlotnikov and Guillermo MacLean titled “Portable Alpha and the Beautiful Art of Language” (March 2006), and an essay by Barton Waring and Laurence Siegel in the March/April 2006 issue of the *Financial Analysts Journal* titled “The Myth of the Absolute Return Investor”. What struck us most about these two pieces is the extraordinary degree to which the investment industry is able to define the investment game to suit its own purposes, and to engage in semantics-focused debates that have little to do with the financial welfare of the industry’s ultimate customers.

In the context of retirement savings, the financial welfare of the ultimate customers is surely best served by providing them with post-retirement income streams that are adequate, affordable, and not subject to serious downside surprises. One would think that this worthy goal would frame both how the investment industry serving the pensions sector defines financial risk, and how it articulates the risk/reward characteristics of available investment strategies. This *Letter* offers evidence that this is generally not the case. Instead, many investment firms focus on devising strategies they believe will enhance market share. Today this is done by adapting investment theory to serve marketing needs, turning theoretical constructs such as alpha and beta into tools of persuasion. Not surprisingly, such strategies easily spark an industrial war of words about what is myth, and what is reality. In the process, the larger questions of how to best serve ultimate customer needs are lost. The *Letter* goes on to restate and apply investment theory so that it focuses on customer needs, rather than those of investment firms.