



First Quarter Client Letter  
April 13th, 2016

Dear Clients and Friends,

Equity markets staged a powerful bounce-back in the first quarter of 2016 and the presidential primaries continued to be a sideshow distraction for all. That said, you don't expect me to relay the news. You deserve valuable commentary and this quarter I try to deliver it in another takedown of an embedded financial industry myth: the all-seeing, all-star fund manager.

To be honest, I marvel at the new and typically terrible television commercials the financial industry churns out each year. It's been a [blogging subject](#) of mine in the past and I fully expect this trend to continue, as long as people continue to be fooled by old tricks and myths of the industry. The following is the script of a [new release](#):

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It's 1993. A hard-working American named Robert finishes up at his typewriter. He speaks with a Southern accent. It's a letter to "Will Danoff" at Fidelity Investments:

**Robert:**

"Dear Mr Danoff,

My wife and I are now participating in your mutual fund. We invested in your fund to pay for a college education for our son. If you're like us, you stay very busy and you get extremely bogged down in your paperwork and day-to-day routine. We've enclosed a picture of our son so that you can get a sense that there are real people out here trusting you with their hard-earned money. He's only one, but in seventeen years he'll be looking to me for help with college. In closing, thank you for taking the time to read our letter.

Respectfully,

Robert and Allison Scott."

**Narrator:** \*20 years later\*

**Will Danoff, Fidelity Portfolio Manager:** "For the last 20 years, my job has been looking at ratios, profit margins, business plans, the latest news. Poring over the tiniest details to find an edge. Validation: I never thought I'd find it in a personal letter, but I did, and that's why I keep it on my door. It's a gentle reminder that at Fidelity, we don't just manage money - we manage people's money."



*Wasn't that just so sweet? Here's what Will Danoff really should have said, but didn't:*

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**Will Danoff, Portfolio Manager:**

“Dear Robert and Allison,

I want to thank you for persistently sending me money for your son's education. Your blind faith and strong commitment to sending *my* kids to college should be commended. You had the chance to invest your money with a superior indexing strategy, but for some reason you took the risk and didn't. Whoops! Instead, you trusted I had some kind of “edge” and paid those hefty expense ratios. Boy, were you incredibly lucky. My strategy didn't tank your account big time, but it was impossible to know beforehand since we active managers are as predictable as where the roulette ball settles. It's my understanding Fidelity will air a commercial about my lucky streak so more people just like you will be convinced they can pick the winning ticket in the fund manager lottery, too. You're going to be famous!

You were right, I was bogged down in paperwork (throwing darts at the Wall Street Journal) and my day-to-day routine (yachts are complicated). **A personal fortune: I always thought I'd find it in this industry, and I did, so I'm pleased your misguided faith helped me build it. It's why I keep it in my bank account - to remind me it used to be in someone else's.**

Thanks,

Will Danoff

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Tyler here: Mr. Danoff is exactly the type of character Fidelity, and the investing world at-large, wants you to believe exists throughout their roster of managers, and they want you to believe he's as easy to find as scanning past performance records. They want you to know he's working REAL hard to find you that one special company that will take his fund, and your money, to the stratosphere so you can send Billy to Stanford. They want you to believe their fund with the fancy name must provide fancy returns. They want you to think paying a higher price will bring more value.



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The reality is the average mutual fund manager and his/her employer are banking excessive fees from investors while providing sub-par investment returns. If you go with an active manager your expected returns are simply less than a simple passive strategy using index funds. The “guru” strategy used to be the accepted norm in the investing world - send your money to the “money guy” and hope for the best. Thankfully, we now know better.

Simply put, my goal is essentially to be the opposite of Will Danoff and the antiquated mirage he, his peers and employer represent.

Sincerely,

Dill Wanoff