

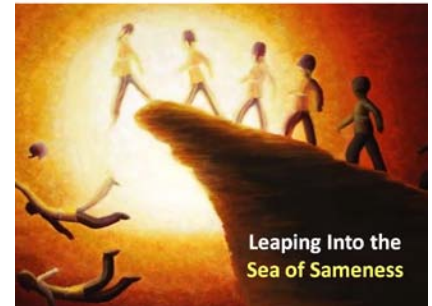
# Playing to Win

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**Avoid commoditized (outsourced) advice services. Why would you want the same tainted product that your competitors use? Gain an edge by emerging from the Sea of Sameness.**

You need sizzle **and** steak to succeed. Most investment advisors radiate smoking hot sizzle, so it's hard to compete on charisma. The ultimate differentiator is steak, i.e. the quality of your advice.

Investment advisors are very skilled at relationship building, and this is critically important because clients need to trust their advisors. That's the sizzle. But sooner or later clients expect results, so they eventually look to the quality of your advice. You shine by being better than your competitors, by avoiding the mistakes your competitors are making. In his very popular book, [Winning the Loser's Game](#), Charlie Ellis compares investing to tennis, where the winning strategy is to avoid unforced errors, allowing your opponent to defeat himself. This is very good advice for investment advisors.



Your competitors are quite vulnerable because they are buying (outsourcing) shoddy advice from firms like SEI, Investnet, Schwab, etc. In the following I show how you can tell the difference between good and bad advice. In a nutshell, the old ways do not work; never have, never will. For more eye-opening details please visit my library at [White Papers](#). It will be well worth your time.

There are two main advisory services: asset allocation/investment policy, and manager selection and monitoring. Asset allocation is still conducted with mean-variance optimizers, despite evidence that these simply don't work. Similarly, manager due diligence is still being conducted with indexes and peer groups, which have never worked even though only a few are aware of this reality.

Better asset allocation tools have been formulated by the likes of David Loeper, CEO of [Wealth Care Capital](#), and Dr. Frank Sortino, chairman of [Sortino Investment Advisors](#). Both advocate management to objectives and behavior modification as the keys to success. And both use simulations. Loeper's simulator integrates mortality, while Sortino's employs downside risk and upside potential rather than mean-variance.

The major disagreement between Loeper and Sortino occurs at implementation. Loeper is an adamant passive crusader, while Sortino believes in an active-passive approach that allocates to talent where he is confident it exists, and fills in with passive completeness investments where he is less confident. For example, Sortino's portfolio construction always calls for passive [True \(Centric\) Core](#).

Sortino's confidence in active management is based on contemporary investment manager due diligence. Indexes are replaced by custom benchmarks that are blends of the mutually exclusive and exhaustive [Surz Style Pure](#). Biased and misleading peer groups are replaced by hypothesis testing. Yes, performance evaluation is a test of the hypothesis "Is performance good?" Custom simulations of all of the possible portfolios the manager could have held are created using [Portfolio Opportunity Distributions](#). Lastly, [Professional Attribution Analysis](#) reveals why the manager has succeeded and the likelihood of continued success in the future.

Do you know what your outsourcer is really doing? How this advice sausage is being made? There's a good chance it's passé and that your competitors are buying it too. The ignorance and indolence of the many presents an opportunity for the few.

It's time to emerge from the Sea of Sameness. Ensure that you are providing the best possible advice to your clients by shunning the crowd and using meaningful asset allocation tools and true manager due diligence. What is holding you back? "No time" means other things are more important. Reorganized priorities win the loser's game.