

# Mathews Capital Velocity Fund

## The academic basis of our successful investment approach

The following excerpts are taken from the 2009 *Best Ideas* research paper prepared by Randy Cohen, Harvard Business School; Christopher Polk, London School of Economics; Bernhard Silli, London School of Economics.

The findings of this research paper are drawn from holdings data from quarterly filings of every U.S. registered mutual fund with the Securities Exchange Commission for the period from January 1991 to December 2005.

This data sample represents assets of \$2.6 trillion and large part of the U.S. professional money management industry. Eligible funds included those with assets exceeding \$5 million and must contain more than 20 stocks.

### Some of their conclusions:

***“Our findings suggest that while the typical manager has a small number of good investment ideas that provide positive alpha in expectation, the remaining ideas in the typical managed portfolio add no alpha at all.”***

***“While a manager gains from diversifying the portfolio, it is likely that the typical investor is worse off. We suggest that investors who put only a modest fraction of their assets into each managed fund can have substantial gains if the managers choose less diversified portfolios.”***

***“The poor overall performance of mutual fund managers in the past is not due to a lack of stock picking ability, but rather to institutional factors that encourage them to over diversify, i.e pick more stocks than their best alpha-generating ideas.”***

***“We point out that these factors may include not only the desire to have a very large fund and therefore collect more fees but also the desire by both managers and investors to minimize idiosyncratic volatility.”***

***“Though of course managers are risk averse, investors appear to judge funds irrationally by measures such as the Sharpe Ratio or Morningstar rating. Both of these measures penalize idiosyncratic volatility, which is not truly appropriate in a portfolio context.”***

**For a complete copy of the *Best Ideas* research paper go to:**

<http://management.ucsd.edu/faculty/seminars/2009/papers/polk.pdf>