Decision Frameworks & Synergism in Investment Manager Selection

David Marshall
Mentors: Vinod Venkatraman & Lalitha Naveen

1. What decision framework is used by analysts to select professional money management?

Generally, what are the factors used by decision makers to hire, invest or buy an investment product?

Research seeks to develop taxonomy and decision framework

Motivations:

- Generalizability of decisions and factors
- Cost of not knowing
- Better models for industry participants
- Address academia "soft-factor" decision-making gap by identifying factors

2. Methods & Data Collection

Follows a grounded research approach consisting of coded interviews and documents

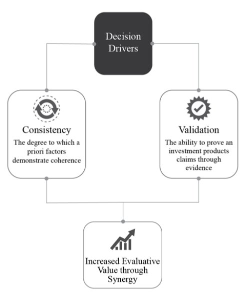
13 one-hour, semi-structured interviews conducted with two groups of investors: institutional & wealth

Industry heuristic promoted a priori factors concept. Sub-factors were linked afterwards.

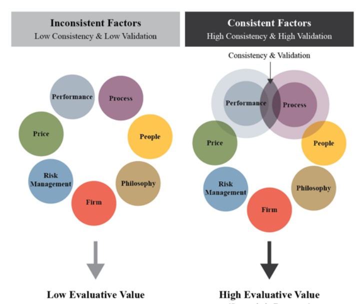
3. Observed Factor Framework

A Priori Factors	Sub-Factors			
Firm	Client Focus/Alignment; Firm Durability	Concentration Risks; Leadership	Independence; Incentive Structure	Ownership Structure; Resourced
People	Accountable & Humble; Skilled	Passionate & Focused; Self-Discipline	Diversity of Thought; Team Continuity	Consistent Process Application
Philosophy	Differentiated	Edge	Understandable	Supported
Process	Adaptability; Documented	Idea Generation; Logical	Multiple Alpha Drivers; Transparency	Process Adherence
Risk Management	Process Enforcement	Informs Process	Independent	Risk Visibility
Performance	Benchmark Relative; Peer Relative	Style Benchmark Relative	Risk- Adjusted Performance	Regime Specific Performance
Price	Absolute Fee	Relative Fee	Liquidity	Cost Relative to Performance
Bias	Business Interest; Career Risk Aversion; Confirmation Bias	Investment Approach; Large Complex	Loss Aversion; Performance Recency	Relationship; White Male

4. Drivers of Evaluative Value



5. Consistent and Validated Factors Provide Greater Value through Synergy



6. Conclusions

1. All a priori factors & sub-factors can contribute to evaluative value.
2. But, evaluative value increases disproportionately and synergistically when analysts can the **Validate Consistencies** between factors.
3. There are observed differences in factor preferences between the wealth and institutional segments studied.

7. Discussion & Limitations

- Quantify the relative importance of factors identified in interviews
- Research the observed factor preference variations among wealth and institutional gatekeeper groups.
- Personal expertise could invite confirmation and familiarity biases
- Some factors could still be missing or characterized differently.

8. References