

Carlson, Ben – Organizational Alpha

2017, [Finance] Grade ★★★★★

Institutional asset managers create value by taking risk, that is by making investments. The two dominating investment processes are asset allocation and the pursuit of alpha generation within asset classes. However, neither of these activities exists in a vacuum. Instead there is a supporting framework around them and this can add to investment returns or it can detract from it. The topic of Ben Carlson's short 80-page book is how to make smart choices when constructing this framework.

Apart from being the Director of Institutional Asset Management at Ritholtz Wealth Management, Carlson is an author of books and runs the perhaps most popular blog on asset allocation there is. He is certainly a very gifted writer who blends astute psychological wisdom, an ability to explain the complicated in plain words with a seemingly genuine interest for the wellbeing of his readers' money. The combination is all too unusual.

The stated aim of the book is to help the 99%, i.e. the many small institutional investors that lack the resources of a PIMCO or a Yale Endowment. The author stresses the importance of not joining the hype of the "latest black" in the asset management business, that almost certainly is a rather complex construction with high fees. Nor should the small institution focus too much of its time on searching for alpha in securities selection.

To a large extent I agree in the quest of avoiding complexity. It results in fewer unintended consequences and frees up time to both focus on the long-term big issues and the attention to perfect the things that the organization actually has chosen to do. At the same time it is a balance where one shouldn't entirely close one's eyes for the fact that the knowledge of asset management is progressing. The trick is

understanding the institutional hype cycle as asset managers are surprisingly fashion prone in how they work. To talk with Warren Buffet "What the wise man does in the beginning, fools do in the end".

The book is choke full with intelligent and sensible opinions. You can sometimes judge the quality of a book by the amount of underlinings and scribbles in the margin. In this book it was hard since all text pretty much got underlined. My main objection is the structure – I don't see it. The definition of organizational alpha seems to be very broad; basically anything in institutional asset management that isn't the actual investment choices. Yet, some things that could be considered "organizational" like human resource management get little or no attention. Without a visible structure the book simply becomes too much a list of a few things that are good to think about if you are one of "the 99%".

Also, chapter six is something of an outlier. The other chapters concern topics like the concept of fiduciary duty, the goals of the asset management, decision-making, developing an investment philosophy, the investment process and the use of consultants and external advisors. Chapter six is about alternative investments, or mainly about some pros and lots of cons of hedge funds and private equity. The thing is, alternative investments is one of many asset classes and admittedly it is diverse and important to discuss given its trendiness, but it still begs the question why there isn't a chapter on commodities, bonds or equities?

Overall however this is a book that should be read. Ben Carlson shows a level-headedness that is atypical and hugely important when it comes to the area of asset management where too many intelligent people imitates strategies that, as the author puts it, won the last war.

Mats Larsson, April 15, 2017