



Brookvine Pty Limited

*What's in a Name?*

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specialists in alternative investments



## What's in a Name (or an Acronym)?

GFC is in the lexicon. It's not in mine. I refuse to add to the surplus of investment TLAs in circulation. I refuse because naming induces a dangerously comforting sense that we've understood or even controlled that named. Hurricanes sound less malevolent, friendly almost, when called Kylie or Jason. Once named our aches, pains and pathologies are noticeably softened and more readily accepted. We infer that someone, somewhere has identified, studied, and perhaps cured the pathology, an inference consistent with investment folklore that the greatest opportunities occur before an asset class or strategy has been named. How re-assuringly benign and trustworthy are strategies pre-fixed by 'enhanced', 'structured', 'protected', and 'balanced'? In Germany *die Stratacticalstructuredquantamentalenhancedich* would surely induce a calming comfort and inspire trust.

Shrewd investors are immune to naming's tendency to induce comfort, acceptance and faux understanding. The less shrewd were readily seduced to over-invest at the worst time by the likes of 'The Great Moderation', 'De-Coupling', 'A New Paradigm', 'Globalisation' (eternally irreversible), 'BRIC', and the latest Frontier Fund opportunity, Senegal, Haiti, Iran, Tajikistan, Estonia. 'Gen X & Y' are comforting and misleading marketing labels. For most human characteristics, variation *within* generations is probably *greater* than it is *across* generations. Compartmentalised names trigger and re-enforce typecasting (think racism) which serves bland dishes of simple answers to complex issues. The preferred default action with new, clever, easy-on-the-ear names, is to flee.

Our incessant search for meaning provides such clear evolutionary advantages that we commonly uncover and act on (imagined) meaning in random data. Concatenations of letters that happen to spell a meaningful word appeal far more than random concatenations that don't. A stock whose ticker BLI was changed to BIL witnessed an immediate surge in its price. During the 1920s bubble the naming fad was 'General' with its subliminal message of power, strength and investment success. General Motors, General Dynamics, and General Foods thrived. In the Nifty Fifty era the suffix '-tronics' captured and re-enforced the mood of the late 60s, just as '.com' did in the 1990s. One company added '.com' to its name, changed not an iota of its business, and was rewarded by a massive jump in its stock price. In the 00s Hedge Funds adopted street names such as '54th Street Capital' or 'Mayfair Capital' that subliminally suggest home-like intimacy and trust. Recent research suggests that names can even maketh the man, that being born a Wordsworth deprived William

of free will in his choice of career. Bernie's expected mitigation plea that his name pre-determined that he made-off with \$50b, might just be upheld.

On the positive side technology is blurring any distinction between words and data, both of which are no more than strings of binary bits. The frequency of occurrence of the 'R' word in the print media does appear to be a leading indicator, as might be the current use of 'green shoots'. In 2006 the *Financial Times* used 'bid' an average of 2.6 times/day, and 'rumours' 2.1 times, a greater frequency than 'would' or 'which'. There's a signal there. Academia too might be sending word-signals. I used Google Scholar to track 'mean reversion' whose increasing use in the ivy-covered halls mirrored its use in the grubbier commercial domain. Unfortunately it was a co-incident indicator. I suspect that a decade ago the frequency of 'copula' in the academic literature would have led its contribution to the GFC (there, I used it.)

The market for words is relatively efficient as it swiftly arbitrages value. For instance, first-user advantages are remarkably brief. Organisations that first used 'leading' did benefit by being seen as leading; later users drew only derision as the word was quickly denuded of meaning. Marketers' over-use so ruthlessly excised meaning that all organisations are now top decile in the 'leading' derby. All are 'client focused'. All managers are 'disciplined'. All private equity managers are 'aligned'. All hedge funds will soon be 'transparent'. Like momentum investing, momentum in words also results in private gain but public cost. Loss of meaning is an unpriced externality. Like most markets this one too produces its share of absurdities. Wordsmiths create euphemistic idiocies such as 'negative growth', or laughable objectives like 'a preferred return' (hands up those who do prefer a return of 8%?).

Poor security selection and poor word selection both have opportunity costs, 'superannuation' being a stark instance. The word conjures up images of *Bleak House*, with aged bookkeepers, quills in hand, dandruff on shoulders, huddled over yellowing shafts of paper, performing ever more arcane annuity calculations. Anecdotal evidence suggests that the name itself turns away 'Gen X,Y,Z-ers' in droves (mea culpa.) It's not too late to 'retire' the 'S' word and re-name our system 'Retirement Savings', one that's self-explanatory, universally understood, and disinfected of Dickensian images. The 'G' word in Superannuation (Contribution) *Guarantee*, intentionally chosen to re-assure, came with the unintended but predictable expectation that *returns* too were guaranteed. As the crisis unfolded that poor choice of name contributed to the erosion of trust with potentially lethal consequences. The generation that came of financial age during the Great Depression eschewed equities. The generation that came of financial age during the 70s eschewed bonds. Will the current generation eschew retirement savings?

Poor and inappropriate naming is evident in calling members of super funds 'consumers', a name designed to generate images of short-term traders. People should be actively discouraged from *consuming* investment strategies and products. Leave 'consumption' to soap and breakfast cereal. Reclaim the language and use the antiquated word 'people' instead. 'Tracking *error*', a name redolent with condemnation

(none want an error), is another instance of (intentional?) poor word selection. Active managers, who lost naming rights, fantasise about 'tracking *benefit*', or more accurately and more clumsily, 'tracking *potential benefit*'. But index managers too lost naming rights. None want to be passive. Had indexed funds been called "engineered funds", passive might have had greater success.

Beyond words, language too suffers from arbitrage and poor choice. Confusion is the fellow traveller of an uncaring approach to language and the expression of ideas. Carlyle Private Equity's recent announcement that "Since this (using an insider to win business) *happened we stopped using finders to ensure the integrity of the investment process*" makes it incumbent on them to answer "Just how did finders ensure integrity? Who will ensure it now?" Poor portfolio construction is not acceptable; poor sentence construction is. I once overheard an investment manager declare with a touch of pride that "*I care about the data but couldn't care less about the words*". He should care because uncaring comes with the cost of lower productivity. How many meaningless or ambiguous emails have resulted in poor investment decisions? How much time is wasted deciphering and comprehending unclear instructions and advice? Ideas, instructions, and suggestions have greater force when expressed clearly and eloquently, but greater force still when expressed creatively and beautifully, with wit and charm. Our associative brain responds to the elegant structure of narratives and to the beauty and power of metaphors. The metaphor of a market as an adaptive evolving biological system, one that can die, aids both comprehension and communication.

The enemies of clarity, expressive power, and deep insight are Executive Summaries and Bullet Points, devoid of context, argument and nuance. Regulation has added further pressure in the direction of content-free, blandishments. The very essence of investing and communicating is to *take* appropriate risks, yet many misinterpret the role of regulators as *lowering* risk, an unfortunate consequence of which is commentators inhibited from saying what they mean. They withdraw from investment judgements that can't be rigorously justified to the satisfaction of lawyers and compliance. The resulting bland-management speak is counter-productive to good public policy because it hinders concerned thoughtful investors in their search for investment wisdom.

The model is Keynes' gifted fluid writing which is inseparable from the genius and power of his ideas. But as economics desperately sought the inappropriate appellation 'scientific' and rushed to become mathematical, writing was devalued. Happily the crisis has brought Keynes' economic ideas back to the centre. I hope it will do the same for the art of clear, vigorous and provocative writing, for as Keynes so eloquently put it, "*Words ought to be a little wild, for they are the assault of thoughts on the unthinking.*"