

The End Is (Not) Near

By Mariko Gordon

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When it comes to taste in movies, I am as shallow as your stereotypical Valley Girl. I don't watch anything sad, I don't watch anything serious, and I don't watch anything violent. Maybe it was all those pretentious foreign films I endured as a teenager in a misguided attempt at sophistication, but now I only go to see lightweight, chick-flicks.

And so under normal circumstances, my "No way, Jose" list would most definitely include the newly released, post-apocalyptic, ["2012."](#)

But two weeks ago, "normal circumstances" were not in place, as **I was soundly outvoted by a soccer team's worth of sixteen-year-old guys** whom I had the pleasure of chaperoning to a [tournament](#) in Tampa, Florida. Their collective need to save face nixed a stupid romantic comedy, and I was forced to overcome my cinematographic cowardice (if nothing else, this business has taught me when to take a stand and when to fold 'em gracefully).

Why "2012?" Well, unless you've been living under an [eschatological](#) rock, you've no doubt heard that **2012 is the year when the Mayan calendar (and possibly human existence) comes to an abrupt halt.**

Not because the Mayans had run out of wall space either, but because - at least according to Hollywood - massive solar flares cause the earth's core to heat up, heave up, and reconfigure the planet into a place where, among other dastardly things, Wisconsin becomes the new North Pole.

In any case, lots of mayhem. **In fact it was about 45 minutes into the big-screen end of the world that I got to thinking about how Western culture likes to see time as linear** - broken up into precise little chunks and relentlessly marching forward.

We don't think of time happening in recurring cycles, such as moon phases or the seasons. And we don't imagine it as a pendulum swinging back and forth. **To us, time is straight and steady and tied to a calendar.**



It's the same way we think about business.

For instance, the Fall tends to be a dodgy time for the stock market because this is when **expectations made at the dawn of the New Year collide with the scarcity of time left in said year to meet those expectations.** Inevitably, after Labor Day, earnings estimates get slashed in a wholesale reality check and stocks wobble.

This also holds true for those of us on the buy-side, where there's another sort of collision between expectations and the ever-dwindling year. **As the weeks wind down, we become fixated on year-end performance,** an arbitrary - but industry-accepted - measure of whether we've been naughty or nice.

Having a good year? We stress over how much relative performance we're going to bleed in December. **Having a bad year?** We develop child-like hopes that we'll be rescued by the portfolio cavalry coming over the hill, as in some grade B Western (also on the movie nix list).

However it plays out, because stock prices at the market's close on the 31st are used to keep score, **there can be some monkey business in those last trading hours of the year.** Call it window dressing, call it portfolio enhancement therapy, sometimes it seems as though the whole world is marking up its book (that is, buying their positions so they close the year at sugar plum rather than coal prices).

As a practical matter, the year-end scorecard often feels arbitrary. Last year, for example, we gave up 210 basis points in relative performance in December, 80 of which came on the last day of the year. We got 72 basis points back the first trading day of the New Year, and were up 163 basis points relative to the Russell 2000 in January.

I learned the lesson of arbitrary performance windows early in my career when I worked at a small-cap mutual fund. The gap between our ten-year performance number and the benchmark narrowed sharply from one quarter to the next - so sharply I thought there must be something wrong with the numbers and recalculated them.

The number was right. **What happened was that a spectacular quarter (and it had to be spectacular to affect a 10-year annualized number) rolled off, and a ho-hum quarter rolled on.** From hero to also-ran, and all because of the time window used.

If there's a great performance elephant traveling through the snake you'll know when it's,...ahem, digested. Likewise, if there's a large air bubble of dismal results, you'll know as well when that has passed. **In either case, mind you, reality has not been altered** - just your perception of it.

All this to suggest that we ought to be looking at rolling periods of short-,



medium- and long-term performance. Our bias towards discrete, calendar-based chunks of time means less of a feel for the cycles of performance, as portfolios and their different underpinnings (growth versus value, large versus small, garbage versus quality) wax and wane, rather than end abruptly.

One thing's for sure. **There's going to be a whole lot of champagne popped on January 1, 2012 when three-year performance numbers no longer have 2008 in them.** Unless, of course, the Mayans turn out to be right.

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