



## **Demand Transparency in an Opaque Mutual Fund World**

By Andy Rachleff

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The start of a new year brings hope for investors looking to beat the market, especially for individual investors who have collectively plowed four times as much money into actively managed mutual funds as passively managed funds.

Unfortunately, most of these investors will end up in actively managed funds that fail in their mission to outperform a passive benchmark. And investors won't know until it's too late because they lack the information to evaluate which funds might consistently outperform the market.

Currently, the playing field is far from level, as the only investors with access to this information are those with the most capital to invest, such as university endowments that often place more than \$100 million with money managers.

Even most so-called "sophisticated investors" – by definition, those with a net worth greater than \$1.5 million or an income greater than \$250,000 in the previous two years – can't demand complete transparency from the mutual funds in which they invest.

But this doesn't have to be the case. All investors – no matter their net worth – deserve a level playing field when deciding where to invest.

As a member of the University of Pennsylvania endowment investment committee, a former member of the Stanford Business School Trust and a former venture capitalist who received a significant portion of my funding from premier endowments, I understand the power of complete transparency. Ivy League university endowments have beaten the markets for decades by selecting only the highest quality public equity managers. But finding these managers is only possible by demanding – and receiving – complete transparency.

Unfortunately, mutual funds, especially actively managed ones, don't offer anything close to transparent data. Most funds post their portfolios quarterly, and with a delay. At that point, the fund may not even still own the posted securities. A few funds, in the name of transparency, may post portfolios once a month, but again, there's no way to know which securities the fund owned and what it's invested in today.



The best money managers have nothing to fear. They have demonstrated over the long term that they know how to find winners before others do. What they do and how they do it is not about luck, nor is it about obfuscation. Their performance records speak louder than their marketing materials.

Combine these outstanding track records with technology and innovation, and these money managers will prove their worth to investors, who can then effectively compare money managers based on their actions and long-term track records, rather than short-term performance. And by posting their investment transactions in real time, or close to real time, money managers can demonstrate to investors what they are doing and explain why they are taking these actions.

Here's hoping this is the year when money managers demonstrate their commitment to all investors – not just the wealthiest – by being more transparent.

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