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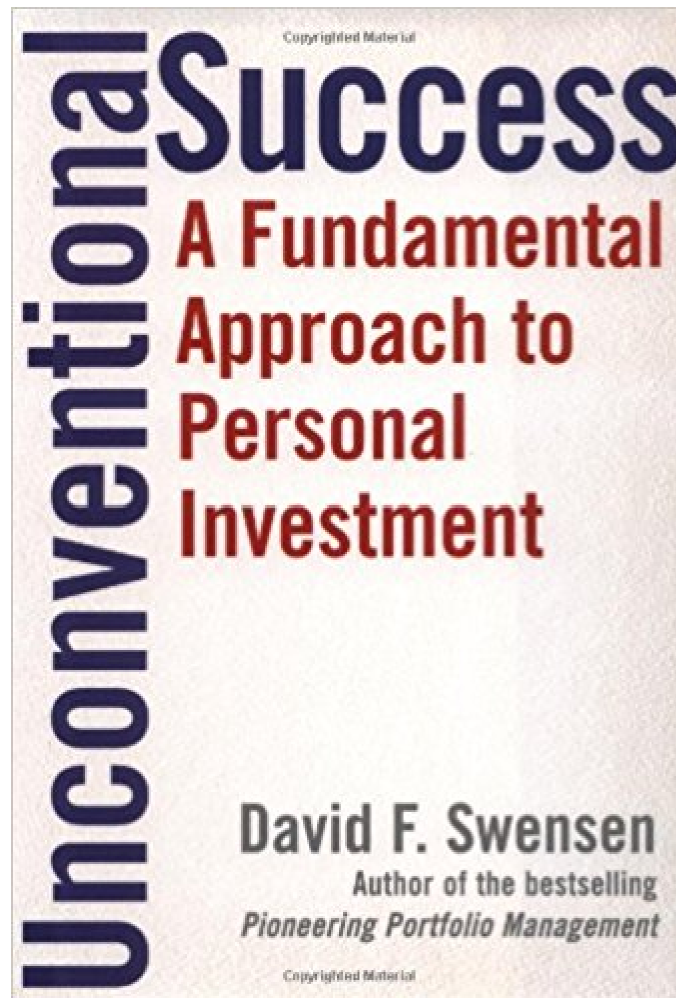
Unconventional Success: A Fundamental Approach To Personal Investment



Synopsis

The bestselling author of Pioneering Portfolio Management, the definitive template for institutional fund management, returns with a book that shows individual investors how to manage their financial assets.In Unconventional Success, investment legend David F. Swensen offers incontrovertible evidence that the for-profit mutual-fund industry consistently fails the average investor. From excessive management fees to the frequent "churning" of portfolios, the relentless pursuit of profits by mutual-fund management companies harms individual clients. Perhaps most destructive of all are the hidden schemes that limit investor choice and reduce returns, including "pay-to-play" product-placement fees, stale-price trading scams, soft-dollar kickbacks, and 12b-1 distribution charges. Even if investors manage to emerge unscathed from an encounter with the profit-seeking mutual-fund industry, individuals face the likelihood of self-inflicted pain. The common practice of selling losers and buying winners (and doing both too often) damages portfolio returns and increases tax liabilities, delivering a one-two punch to investor aspirations. In short: Nearly insurmountable hurdles confront ordinary investors. Swensen’s solution? A contrarian investment alternative that promotes well-diversified, equity-oriented, "market-mimicking" portfolios that reward investors who exhibit the courage to stay the course. Swensen suggests implementing his nonconformist proposal with investor-friendly, not-for-profit investment companies such as Vanguard and TIAA-CREF. By avoiding actively managed funds and employing client-oriented mutual-fund managers, investors create the preconditions for investment success. Bottom line? Unconventional Success provides the guidance and financial know-how for improving the personal investor’s financial future.

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Customer Reviews

I am a graduate of the Yale School of Management (with a focus in finance) and have been a fan of Swensen’s for a long time. Unconventional Success is, in my view, a must read for anyone who has to manage their own retirement assets (which is most people today).Swensen compellingly makes the case that (a) the vast majority of passively managed funds outperform actively managed funds (after fees), (b) the vast majority of the mutual fund industry allows profit motives to trump their fiduciary duty to investors, and (c) an individual investor’s financial assets are best managed by non-profit organizations - i.e., Vanguard or TIAA-CREF.Swensen lays out six "core" asset classes that should form the basis of an individual investor’s portfolio, each of which should comprise between 5% and 30% of the portfolio. Below is the "generic" target portfolio outlined in the book:1. Domestic Equity (30%)2. Foreign Developed Market Equity (15%)3. Emerging Market Equity (5%)4. Real Estate (20%)5. U.S. Treasury Bonds (15%)6. U.S. Treasury Inflation-Protected Securities (15%)Swensen also discusses "non-core" asset classes and why each should not be a part of an individual investor’s portfolio. These "non-core" asset classes include:1. Domestic Corporate Bonds, 2. High Yield (Junk) Bonds, 3. Tax Exempt (Municipal) Bonds, 4. Asset-backed securities, 5. Foreign Bonds, 6. Hedge Funds, 7. Leveraged Buyouts, and 8. Venture Capital. We spent so much time in business school glorifying these assets that I found the rationale for why they have no place in an individual’s portfolio quite useful.

I was fairly impressed with this book. I would give it an A, but the style of writing was painful to read, so I give it a B.I recently saw several articles about Harvard’s endowment manager leaving Harvard to set up his own firm. I was amazed to see how diversified the Harvard fund was in that it included not just stocks and bonds, but many other asset classes:U.S. equities 15%Commodities 13Private Equity 13Hedge Funds 12U.S. Bonds 11Foreign Equities 10Real Estate 10Inflation-Indexed Bonds 6Emerging Markets 5High-Yield 5Foreign Bonds 5Borrowed Money -5This info came from 12/27/04 Business Week article. The same article said Harvard’s endowment fund grew from $4.7B in 1990 to $22.6B in 2005. This sounds impressive until you calculate the compounded return, which is 11.04%. Simply investing in an S&P 500 index fund over the same time period would have given roughly a 10.91% compounded rate of return. Swensen seems to have followed a similar very diversified approach at Yale.I really enjoyed the explanation of why certain asset classes should not be included in investor’s portfolios.....specifically foreign bonds.Since I am an avid Index Fund

investor, Swensen was preaching to the choir with regards to blasting the "for profit" mutual fund companies. Being a Vanguard investor, I was disappointed to see Vanguard take one hit for following one type of unsavory practice. Compared to the "for profit" mutual fund companies, Vanguard is a shining angel.The successes of Harvard's and Yale's endowment fund investments are spreading the gospel of the advantages of asset allocation.

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