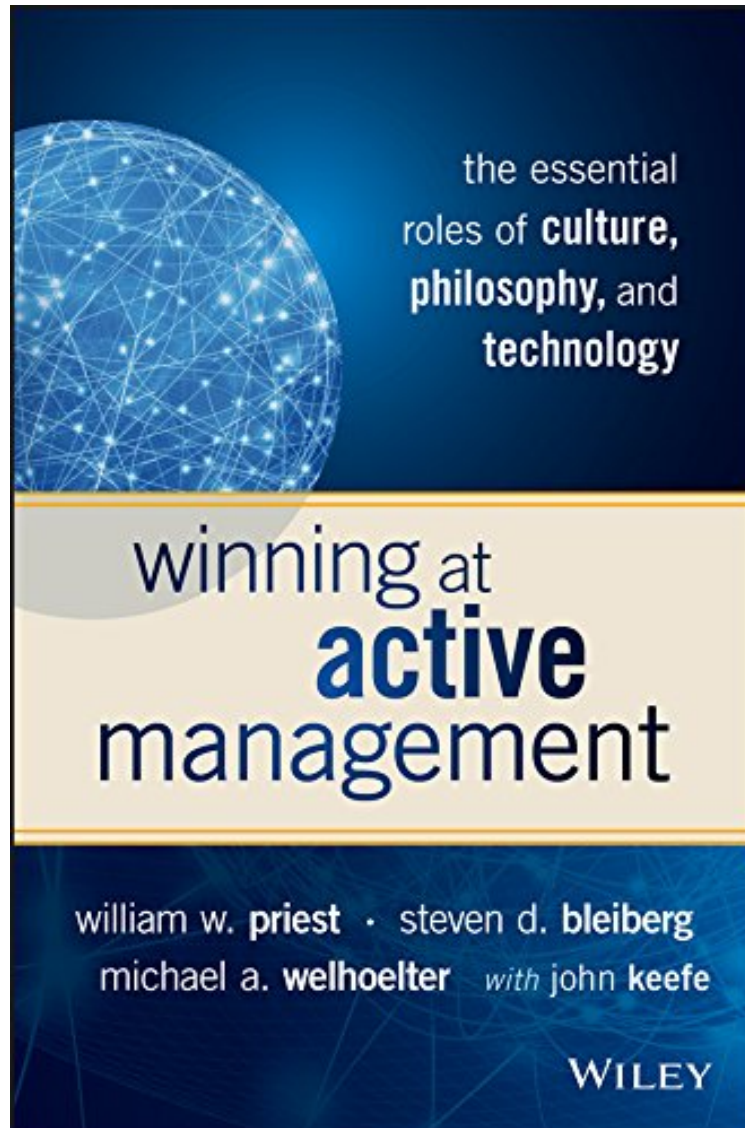


Winning at Active Management: The Essential Roles of Culture, Philosophy, and Technology

William W. Priest, Steven D. Bleiberg, Michael A. Welhoelter
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William W. Priest, Steven D. Bleiberg, Michael A. Welhoelter : Winning at Active Management: The Essential Roles of Culture, Philosophy, and Technology before purchasing it in order to gage whether or not it would be worth my time, and all praised Winning at Active Management: The Essential Roles of Culture, Philosophy, and Technology:

0 of 0 people found the following review helpful. Can Active Managers Get Back to Winning?By Greg PowellInvestors are shifting money into passive funds at a fevered pace. Can active managers ever hope to win back

these clients? In *Winning at Active Management*, Bill Priest and his co-authors make the case that their firm Epoch Investment Partners has what it takes to outperform passive funds over the long term. The three most important elements of the Epoch approach involve 1) building a great culture, 2) focusing analysis on cash flow rather than GAAP earnings, and 3) melding fundamental and quantitative research to get the best from both approaches. In terms of culture, Epoch stresses the open sharing of ideas, integrity and shared financial interests. Given the outsized egos found in the investment industry, these cultural aspirations can be difficult to achieve. It's reassuring that Epoch's top management values their corporate culture enough to discuss it at the outset. The discussion of cash flow analytics is largely a repeat of the arguments that Bill Priest and Lindsay McClelland made in their earlier work, *Free Cash Flow and Shareholder Yield*. It's interesting to note that Epoch uses forward accounting earnings in their quant models for practical reasons. There is no doubt, however, that the fundamental analysis at Epoch appropriately reflects their cash-flow focus. They also point out that their quant models do use trailing free-cash-flow yield, and include penalties for both growth in balance sheet accruals and growth in operating assets. The authors make a strong case that the combination of fundamental and quantitative analysis should be able to beat both pure fundamental and pure quantitative approaches. Fundamental analysts can easily have stocks slip off their radar screens, causing them to miss opportunities. Quantitative models tend to work well in stable markets but can miss inflection points badly. Priest and his co-authors argue that putting quant tools in the hands of fundamental analysts is analogous to computer-assisted chess. They point out that while computers can beat the best players, good players assisted by computers can still win against the best computer programs. The book has two clear faults. As pointed out by other reviewers, no stock examples are given. As active portfolio managers, the authors are understandably reluctant to mention specific stocks given that a book is frozen in time while stock market opportunities fluctuate. It would be helpful to the reader, however, to see how their ideas translate into specific investments. (I assume they have tended to own tobacco and health insurers and avoided railroads, but there is no way to really know.) The other deficiency is the lack of any discussion of short selling. Epoch has built a strong staff and powerful tools to separate good stocks from bad. Given this great research engine, it seems odd to only invest based on half of the insights generated. The real weakness of passive funds is that investors must own some truly bad stocks. Short-selling would allow Epoch to more fully express their research insights and gain a further edge on passive competitors. Overall this is a great book for those of us in the investment management business. It offers a compelling road map for active managers to beat passive funds and once again become winners.

0 of 0 people found the following review helpful. Two Stars
By Patte P
Nothing really new or interesting

Winning at Active Management conducts an in-depth examination of crucial issues facing the investment management industry, and will be a valuable resource for asset managers, institutional consultants, managers of pension and endowment funds, and advisers to individual investors. Bill Priest, Steve Bleiberg and Mike Welhoelter all experienced investment professionals, consider the challenges of managing portfolios through complex markets, as well as managing the cultural and technological complexities of the investment business. The book's initial section highlights the importance of culture within an investment firm — the characteristics of strong cultures, the imperatives of communication and support, and suggestions for leading firms through times of both adversity and prosperity. It continues with a thorough discussion of active portfolio management for equities. The ongoing debate over active versus passive management is reviewed in detail, drawing on both financial theory and real-world investing results. The book also contrasts traditional methods of portfolio management, based on accounting metrics and price-earnings ratios, with Epoch Investment Partners' philosophy of investing on free cash flow and appropriate capital allocation. *Winning at Active Management* closes with an inquiry into the crucial and growing role of technology in investing. The authors assert that the most effective portfolio strategies result from neither pure fundamental nor quantitative methods, but instead from thoughtful combinations of analyst and portfolio manager experience and skill with the speed and breadth of quantitative analysis. The authors illustrate the point with an example of an innovative Epoch equity strategy based on economic logic and judgment, but enabled by information technology. *Winning at Active Management* also offers important insights into selecting active managers — the market cycle factors that have held back many managers' performance in recent years, and the difficulty of identifying those firms that truly possess investment skill. Drawing on behavioral economic theory and empirical research, the book makes a convincing case that many active investment managers can and do generate returns superior to those of the broad market.

Praise for *Winning at Active Management* "In this highly accessible book, Bill Priest and his co-authors do a masterful job demonstrating the critical components of success for any investment manager: maintaining the right culture, developing a rigorous and effective investment philosophy, and embracing technologies that can capture greater value from fundamental insights. Investors interested in improving their results will benefit from the five decades of wisdom and experience that are so engagingly captured here, and come away with profound insights about the active/passive debate, how both culture and technology are underappreciated drivers of success, and the future of

investing. Bill's highly successful career as an investor, innovator and industry leader give this work tremendous depth and perspective — I strongly recommend it." — Blake Grossman, Managing Partner, CHJ Capital Management, Chairman of the Board of Directors, Financial Engines, Former Chief Executive Officer, Barclays Global Investors "While having the right corporate culture is essential for successful asset management, culture is surprisingly under-researched in finance. Winning at Active Management is a bold step forward in filling this gap." — Campbell R. Harvey, Ph.D., Professor of Finance, Duke University, Co-author, Corporate Culture: Evidence from the Field "Bill Priest and his co-authors expertly capture what's at stake in the debate about active versus passive investing. In Winning at Active Management, they identify the styles and traits in active management that outperform over the long term." — Fleming Meeks, Executive Editor, Barron's

From the Inside Flap Winning at Active Management conducts an in-depth examination of crucial issues facing the investment management industry, and will be a valuable resource for asset managers, institutional consultants, managers of pension and endowment funds, and advisers to individual investors. Bill Priest, Steve Bleiberg, and Mike Welhoelter, all experienced investment professionals, consider the challenges of managing portfolios through complex markets, as well as managing the cultural and technological complexities of the investment business. The book's initial section highlights the importance of culture within an investment firm — the characteristics of strong cultures, the imperatives of communication and support, and suggestions for leading firms through times of both adversity and prosperity. It continues with a thorough discussion of active portfolio management for equities. The ongoing debate over active versus passive management is reviewed in detail, drawing on both financial theory and real-world investing results. The book also contrasts traditional methods of portfolio management, based on accounting metrics and price-earnings ratios, with Epoch Investment Partners' philosophy of investing on free cash flow and appropriate capital allocation. Winning at Active Management closes with an inquiry into the crucial and growing role of technology in investing. The authors assert that the most effective portfolio strategies result from neither pure fundamental nor quantitative methods, but instead from thoughtful combinations of analyst and portfolio manager experience and skill with the speed and breadth of quantitative analysis. The authors illustrate the point with an example of an innovative Epoch equity strategy based on economic logic and judgment, but enabled by information technology. Winning at Active Management also offers important insights into selecting active managers — the market cycle factors that have held back many managers' performance in recent years, and the difficulty of identifying those firms that truly possess investment skill. Drawing on behavioral economic theory and empirical research, the book makes a convincing case that many active investment managers can and do generate returns superior to those of the broad market.

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