ASSET MANAGEMENT

AIMS :

☺ ***To learn about***: asset and fund management, key vocabulary of asset management and allocation
☺ ***To learn how to:*** disagree diplomatically
☺ ***To practise:*** talking to a client about their investment portfoli

LEAD IN

- **IFf you had a large amount of money to invest, would you invest yourself, or get a professional investment consultant to do it?**
- **Would you like and invest other people's money?**
- **What are the different basic strategies of asset management?**

LISTENING 1 : Asset Management and allocations

M1 Finance - Asset Management - 1.mp

Paula Foley is an investment consultant in New York City. Listen to her talking about asset

Allocation	Diversification	Liabilities	Portfolios
Size	Derivatives	Interest	Objectives
Risk	Style		

management. Which three of the following things does she NOT mention?

Read the statements below, which summarize what Paula Foley says, and then listen again. In what order does she say these things?

a) Asset allocation means deciding how much to invest in different classes of investments: bonds, stocks and so on.

b) Asset management involves investing in bonds, stocks, cash, presious metals and funds.

c) How you manage assets depends on the client's objectives and the portfolio's size.

d) If you diversify too much, it becomes too expensive.

e) It's easier to diversify a large folio than a small one.

f) Objectives can be either long term or short term.

g) The risk of portfolio depends largely on the expected return.

LISTENING 2: investment styles

M1 Finance - Asset Management - 2.mp

Listen to Paula Foley talking about investment styles. How many styles does she mention?

Listen again and complete the notes below.

1. Growth investment means looking for:
2. Value investment is investing in:
3. Large companies are generally:
4. Small companies often:
5. Active management means you:
6. Passive investment means you:
7. Index-linked portfolios try to:
8. Even fund portfolios need:

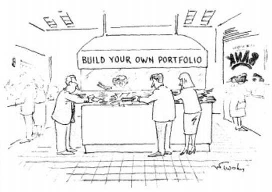
Now, use a word from the box to make common word combinations. One word can be used twice.

Asset	Accumulation
Capital	Earning
Conservative	Industries
Growth	Investment
Stable	Values

READING: Fund management

The article blow from *The Economist* was written a long time ago. It was published after actively managed equity funds in Britain had lost 30% (on average) in 30 months. This was only 1% less than passive, index-linked funds. Read the article and answer the questions.

mug = a person who doesn't know very much and is easy to take advantage of
come into their own = be successful
futile (adjective) = unsuccessful, a waste of time
handsomely rewarded = well paid
trigger (verb) = cause, provoke
upfront = paid in advance
better off = richer, or in a better situation
slim (adjective) = small



FUND MANAGEMENT : Mug's Case

Anger is growing with those who manage money, particularly with those poorly performing active managers who claimed that it was precisely during tough times that they would come into their own against indexed funds. In Britain, two-thirds of active managers underperformed the index last year, even before the fees that they charged are subtracted. Those people are handsomely rewarded for losing money. Each year they pocket 1-2% of the assets they manage, on top of initial charges of as much as 5%. Indexers, by contrast, charge only 0.5% a year, with no upfront fees.

An average fund manager will beat the market some of the time. Over the long run, though, the great majority of fund managers will do no better than the market average, particularly once their charges are taken into account. The chances are slim of finding one of those blessed few who can show real, sustained skill in stock-picking. Even if you find one, you may discover that what made him good in one economic period will serve him less well in the next.

Believers in the so-called efficient-market hypothesis, developed by American economists in the 1960s, have tried to demonstrate the impossibility of consistent outperformance. They argue that all useful information that is available to market participants is already factored into a company's share price. Additional analysis of a share by, for instance, taking a closer look at a company's books or talking to its management – as well as all attempts at discovering patterns in price movements – will be futile. This theory opened the door to those offering merely to track the index. Index-tracking grew hugely during the bull market of the 1980s and 1990s. In the bear market of the past two years, people have not pulled out much money from index funds – or at least, not yet.

Not everybody buys the efficient-market hypothesis, however. George Soros, a well-known speculator, thinks he made his money because markets often over- or undervalue things. He also challenges the view that share prices are simply a passive reflection of underlying value, or of the expected earnings of a company. A high share price might, for example, trigger certain actions: a public offering of a company's shares, or a merger or an acquisition. A low share price, meanwhile, might stop plans for an initial public offering or a merger. This is what Soros calls the market's 'reflexivity'.

If knowledge of such a two-way relationship between share prices and assets can be put to good use, a fund manager might consistently do better than the market. Peter Lynch, formerly of Fidelity Investments, showed that a more old-fashioned technique – looking for good companies that the market fails for a time to appreciate – can also outperform. Yet a few examples among a cast of many thousands of fund managers offer only small consolation to the average investor, who will almost always be better off – or these days, rather worse off – putting his money in an index fund.

1. **Why are people getting angry with active money managers?**
2. **Why did indexed funds develop?**
3. **What is the efficient-market hypothesis? Why does it suggest that it is impossible to beat the market?**
4. **What is George Soro's argument against the efficient market-market hypothesis?**
5. **How did Peter Lynch beat the market?**

6. **Why does the article recommend that the average investor should use a passive index-linked fund rather than an actively managed one?**

DISCUSSION

Do you agree with the average people who say this is impossible to beat the stock market, on average?