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When a smart adviser *really* matters

Sometimes having the right manager is more important than picking the right investment category.

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(Fortune Magazine) -- Believe it or not, someday you'll feel like buying stocks again. It will no longer seem that the end of the financial world is at hand, and that even hiding money (if you have any left) under your mattress may not be safe enough.

So, with that glimmer of hope in mind, I'd like to do something different from what I usually do. Instead of discussing the crisis du jour, my usual practice, I'd like to look at some numbers that I find fascinating and that will be useful to you when the world calms down.

These numbers are the ten-year returns investors realized from putting their money into "alternative assets" such as leveraged buyout funds, real estate funds, and venture capital funds.

The numbers, which Fortune got from Cambridge Associates, a Boston-based advisory and research firm, really matter because the usual metrics you see for these investments - such as the average return - aren't particularly helpful. The reason: Unlike the way things work in the world of conventional assets, you can't buy an index fund for alternatives; you have to pick individual funds and managers.

The Cambridge numbers show that having the right manager is more important than picking the right investment category - almost the polar opposite of normal retail investing, where the performance difference between the most successful and least successful managers is much smaller.

If you're fortunate enough to have the double-digit millions to ante up for the alternatives game, these numbers - and the thinking that underlies them - will help you make the right choice. But even if, like most of us, you're not in the megabucks league, you have a stake in alternatives - you just may not realize it. Your state's employee pension fund is likely to own alternatives. Ditto for your employer's pension fund (if you're lucky enough to

have a company pension) and for university endowment funds. Thus the return on alternatives could affect your taxes, your retirement income, or the tuition that you, your kids, or your grandkids might have to pay.

Enough of a buildup. Now to the numbers, which you can see in the chart to the right. Rather than showing average returns, Cambridge shows the returns posted by the more successful, less successful, and median managers in its database. (A median, you may recall from Stats 101, is the midpoint of a list, which means that half the field did better and half did worse.) These numbers cover the ten years ended March 30 for leveraged buyouts, real estate, and venture capital, and June 30 for everything else.

The most striking thing is that the best-to-worst spread in the four alternative asset classes in our table is far greater than the spread in the other asset classes, which involve publicly traded securities. The second thing that leaps out at you - or at least, leaped out at me - is that more than half of the venture capital funds in Cambridge's 483-fund universe have lost money for the past ten years. (We know that because the median manager - the one in the middle of the list - posted a loss.)

Now, watch. Even though venture capital produced terrible returns overall, investors who picked any of the top two dozen managers (5% of 483) earned at least 27% a year. That's far better than the median return for the two hottest fields: real estate and leveraged buyouts (which now go by the name of "private equity"). It about matches what the top quarter of the managers in the two sizzling categories earned.

Translating from numbers into English, what this means is that the top managers in a cold asset class outperformed about three-quarters of the managers in the hot classes. "If you don't pick the right manager, you've made a bad choice," says Deirdre Nectow, Cambridge's director of business development. Indeed.

Of course, in an ideal world you'd pick not only a top manager but a top manager in a high-return asset class. But there's no way to know what class that will be.

Sure, this exercise isn't particularly useful at a time when all you care about is surviving. But the best time to start thinking about buying is when everyone is selling. So set these statistics aside. Someday, when you can stop wincing every time you look at your portfolio, you'll find them useful.