Swenson on diversification, indexing, myths

Speaking of great universities and stellar investment performance, here are several compelling points from David F. Swensen, legendary chief investment officer of the Yale endowment, which has averaged returns of 16% over two decades. These proof-points are culled from Swensen's book, Unconventional Success:

The for-profit mutual fund industry, with its excessive fees (both stated and hidden) and its constant "churning" of portfolios, does the average investor irreparably more harm than good.

If one aggregates all returns for all actively-managed stock portfolios over a given time frame, the combined results inevitably mimic performance of the market as whole, less the fees one has paid to "play the game."

The only proven blueprint for sustained success is an exceedingly well-diversified, equity-oriented and passively-managed (index-model) portfolio.

Market timing is a dangerous myth: it relies on a bewildering array of unknowable macro-economic and financial variables.

100% of investor returns derive from asset allocation; individual stock picking and marketing timing is inconsequential.

"Mirror" investing – chasing yesterday's winners – is what cripples most investment programs.

"Mimic" investing (i.e., indexing) and diversification allows investors to achieve consistently higher returns relative to risk. The great Nobel laureate Harry Markowitz called diversification one of the economic world’s rare "free lunches." It provides risk reduction without a corresponding return diminution.

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