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9 Catchers Ain't Moneyball

By Alan Snyder

As an Angeleno still smarting from the Dodgers playoff loss to the Washington Nationals who at least emerged victorious, I ruminated on what learnings from baseball could be applied to money management. At one level, *Moneyball* and its advice as espoused by Billy Beane of the Oakland Athletics says it all. Don't be dazzled by what everyone else is doing, or saying, play the quantitative percentages. Analysis counts. Nine catchers do not make a great baseball team. Even the most famous catcher, Yogi Berra, notes:

"You can observe a lot by just watching" and
"It ain't over 'til it's over."

Thus being both an observer of and listener to others, I am continuously surprised when I hear some financial advisors opine, "I don't do Alternative investing ("Alternatives")!" Then, like Yogi, I don't give up but try to win them over. Moreover, I read an article in *Barron's* entitled, "How to Play Upside-Down Interest Rates" that only offers the same old, same old solutions. Amazingly in the same issue, another article described how endowments have outperformed most other institutional pools of capital through their use of Alternatives. Of course, with *Barron's* being *Barron's*, their fatuous zinger was that endowments had underperformed the raging bull market without recognizing the necessity for the prudent risk control offered by Alternatives. Small ball, indeed.

Alternatives are not the end-all or be-all, yet merit a place in most investment portfolios. "Alternatives" is a squishy term and demands some scoping. It encompasses:

- Hedge Funds
- Private equity
- Private debt
- Real estate
- Long/short
- Managed futures
- Hard assets
- Derivatives

There are many and varied legal structures to consider: limited partnerships ("LPs"), limited liability companies ("LLCs"), trusts, even ETFs, etc.

Endowments have used almost all of these to create compelling performance records that most all of us might envy. JPMorgan Chase even opines, “Alternative investments can create the potential for more consistent and stronger returns over time.” Not surprisingly, they offer to help. At Shinnecock, we are believers with endless evaluation toolkits delineated on www.shinnecock.com for the D.I.Y.

Ben Franklin has told us it is informative to do a plus/minus checklist. Here goes for comparing Alternatives to traditional equities and bonds.

Pluses

- Inflation hedge
- Additional diversification
- More attractive and stable returns
- Low correlation
- Can be tax efficient

Minuses

- Typically less liquid
- Often longer duration
- More challenging to mark-to-market
- Less regulated
- More complicated
- Lower transparency

Separating the great Alternatives from only the good, are the ones that can address the generalized minuses. This can be done. For example, our own art-secured lending fund is:

1. Reasonably liquid with 90-day notice on the quarter
2. Six- to nine-month duration
3. Art appraised, or priced from a recent auction
4. But yes, less regulated than publicly traded equities
5. Simple and operationally efficient. Prepaid interest with Shinnecock controlling the collateral.
6. Complete underwriting transparency

To avoid repetition from our earlier notes, the art fund provides attractive and consistent returns, inflation hedge, low correlation, etc. covering the pluses.

Frequently, gainsayers cite what we would call myths related to Alternatives. Below we show how the art fund refutes these myths:

1. Only institutions or ultra-high-net-worth investors are permitted to invest

Fact – in our case, accredited investors* may invest.

2. Fees are killer expensive

Fact - Fees are not at the level of ETFs, but is a 1% management fee and 10% incentive

fee exorbitant for the work involved?

3. Fail to protect in equity downturns

Fact – Barron's does observe that endowments generally escaped the crunch of 2008 - 2009 because of their allocation to Alternatives. Our art fund correlates at a modest 0.29 with the S&P 500.

4. Only oddball investments

Fact – Yes and no. Lending against museum-quality fine art is atypical, but “oddball”?

With \$15 trillion in negatively yielding debt, Alternatives can offer a compelling solution. Maggie Smith in the ubiquitous *Downton Abbey* cuts to the chase when her character Violet, the dowager, exclaims, in an exchange with Isobel:

Isobel: “How you hate to be wrong.”

Violet: “I wouldn't know. I am not familiar with that sensation.”

For readers who know me, please note I am not as old as Maggie Smith. She states with great wisdom to which I can relate, “I don't argue, I explain.” She continues: “Hope is a tease designed to prevent us from accepting reality.”

I would add that no form of investing is “Jack and the Beanstalk” growing to the sky but a thoughtful blend of “jointness and resilience” ([click here to read article](#)) coupled with leavening from Alternatives to become a winning investment admixture.

As usual, all comments of agreement, disagreement or counsel are welcomed.

*Accredited investors are generally individuals with a net worth of at least \$1,000,000 (excluding primary residence) or individuals with an income of at least \$200,000 (\$300,000 with spouse) in each of the past two years, with a reasonable expectation of reaching the same level in the current year.

Upcoming Events

See attached schedule of industry related events at which Shinnecock will be sharing more in-depth information and let us know if you'll be attending so we can look for you!



Upcoming Events

Shinnecock will be in attendance and/or speaking at the following events. We'd be happy to have you join us!

November 4-5 – New York City

Agecroft Partners: Gaining the Edge

The Roosevelt Hotel

45 East 45th Street, New York, NY 10017

For information and registration: <https://www.apgainingtheedge.com/>

November 11-12 – New York City

3rd Annual Beryl Elites Alternative Investment Conference

The Cutting Room

44 East 32nd Street, New York, NY 10016

For information and registration: <https://berylelites.com/3rd-annual-beryl-elites-alternative-investment-conference>

December 4-5 – Dana Point

Opal Group: Alternative Investing Summit 2019

The Ritz-Carlton, Laguna Niguel

One Ritz Carlton Dr, Dana Point, CA 92629

For information and registration: <https://opalgrou.net/conference/alternative-investing-summit-2019/>