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INVESTING

## The Parasites of Finance



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By Barry Ritholtz

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Over the past few decades, I have watched the financial industry change. Some parts have evolved quite slowly, while others shift rapidly. But I am always amazed at how some business models manage to hang on despite overwhelming proof of their lack of purpose or value added.

Some parts of the investment world exist simply because people don't know better. The information is out there, but it is obscured by a relentless parade of advertising, promotion and marketing. The truth gets lost behind a smokescreen of noise and deception. Indeed, there are increasing numbers of people who are employed for just that purpose.

*Ignorance: It's a job creator.*

But rather than merely complain, what if we take a look at the parts of the financial industry that don't create value.

**Fund of funds:** I have been critical of hedge funds that charge too much for the privilege of failing to deliver alpha, or market-beating returns. But what should we make of the fund of funds that charge an additional fee for the privilege of selecting underperforming hedge funds for investors? However they get paid -- a layered fee on top of other fees, or directly from the hedge fund -- they create conflicts of interest and/or drags on returns. How these continue to exist is beyond my comprehension.

**Retail commission brokerage:** I am perplexed at how long the retail-brokerage industry has managed to hang around. In the late 1990s, I expected it to come to an ignominious end. It morphs and thrives, even while under pressure from many different directions.

**Financial pundits:** My colleague Josh Brown has masterfully dissected this group in a new book, ``Clash of the Financial Pundits: How the Media Influences Your Investment Decisions for Better or Worse." (Disclosure: I am the subject of one chapter of the book.) I don't think it is a spoiler to say that half the pundits out there are worthless, self-promotional weasels who do nothing for investors and traders. As to the other half, well you need to make up your own mind about them. Suffice it to say the decent pundits are smart, circumspect and consider their words carefully.

**Newsletter writers:** I continue to be astounded that this has thrived as a sub-industry of finance. Promises of 1,000 percent gains, stock-picking excellence and incomparable market-timing skills don't pass the sniff test. Basic math informs us that anyone who has developed a true alpha-generating technique would garner far higher returns than selling those secrets in a newsletter.

Just as an aside: You need to distinguish between those folks who provide analytical insight about a specific topic that requires expertise -- energy exploration, biotech, even economics -- and the get-rich-quick promises that fill my inbox. The former have value, the latter are useless.

**Public relations/investor relations:** Each day, my inbox is filled with some nonsensical announcement from the bowels of irrelevant companies. I'm not referring to everyone who works in PR or IR. Some of you actually look at the subject areas I spend most of my time writing about, and send me relevant and interesting information on that area. I only refer to the other 98 percent, the time-wasting idiots who impose a tax on the rest of the world by blasting out a relentless firehose of meaningless drivel.

Exploiting greed continues to be an excellent marketing strategy. It serves as a reminder we should never underestimate the ongoing failure of human intelligence.

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