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BOOK REVIEW

Mark Kritzman, Senior Editor

SUCCESSFUL INVESTING IS A PROCESS: STRUCTURING EFFICIENT PORTFOLIOS FOR OUTPERFORMANCE

By Jacques Lussier, CFA, Bloomberg Financial Series, Bloomberg Press
(*Reviewed by Bruce Grantier*[a])

Jacques Lussier CFA, Ph.D., is a well-known financial economist and Chief Investment Strategist at Desjardins Asset Management in Montreal where he has worked since 1995. He has a Ph.D. in International Business with a minor in Banking Studies from University of South Carolina. He was taught at HEC Montreal where he also received a Masters in Finance and a Bachelor in Economics. He is a frequent speaker on the lecture circuit (conferences, seminars, and webinars) and is a leading contributor to and Vice President of the Montreal Chapter of the CFA Society. Jacques has an excellent knowledge of the literature, and has connections on a first name basis with top academics. I first met Jacques when a mutual friend of ours suggested that I might help him review an early draft of this book and I am humbled that he should list me in the acknowledgments. To me Jacques is incredibly well plugged-in and draws some of the most impressive academic names in investments as speakers to his Montreal CFA Society. I once heard that fixed income CFAs, wherever their hometown, often join the New York CFA Society just for the quality of their presentations and publications. I am thinking of joining the Montreal CFA Society, only a short hop from my Toronto home, for the same reasons.

On the cover, Nassim Taleb writes: "Should I want advice about the construction and the dynamic management of an investment portfolio, Jacques Lussier would be my first telephone call." He is joined by Charles Ellis who adds: "For the serious investor, Jacques Lussier provides a careful and clearly written analysis of what can and should be done to manage investments in a professional market where fees are large relative to value added. *Successful Investing* is always clear, always interesting, and always educating." A comment from Robert Arnott: "Jacques Lussier has done a superb job of synthesizing many of the developments in modern finance into a well-crafted 'owner's manual'

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for building a successful investing process."

A final note of my own on the contents and presentation. I agree with the comments above. The book is very readable and flows logically through the various topics. The book has quite extensive academic references—some nine pages worth—a reflection of the background knowledge which Lussier brings to his discussion. The chapter notes are conveniently placed at the end of each chapter and each chapter concludes with a 'Closing Remarks' section—a summary of the main takeaways of the chapter plus their extension into a broader perspective or applications.

In this review I propose to outline the four main parts of the book and provided a number of takeaways from each. These four are: (1) an overview of the fund management business, (2) the four dimensions of the investment process plus the basic notions of asset valuation and forecasting, (3) portfolio construction and asset allocation processes that are statistically likely to outperform, and (4) a combination of the preceding into a coherent framework that can be adopted to the needs and requirements of individual and institutional investors alike.

Active fund management process

In Part I Lussier reviews the main underlying fundamentals in the process of active management, how to evaluate managers and the economics of fund management. He devotes attention to factors (such as size, style, sectors, and cycles) and discusses in detail some styles of management and the ability to identify managers who are likely to outperform. He concludes Part I with a discussion on benchmarks and alternatives to cap-weighting. The chapter contains very good quotes (e.g., John Bogle) and references to outperformance through active share (e.g., Cremers and Petijisto), plus some work of his own on culture and fundamental indexing.

Dimensions of the investment process, asset valuation, and forecasting

Part II begins with four dimensions of the investment process: volatility, arithmetic means, geometric means and taxes, and accounting for objectives and constraints. Understanding the first three dimensions is critical to understanding the investment returns themselves, plus the concept of mean variance optimization and diversification under modern portfolio theory. As mentioned previously, he writes mainly for an institutional audience but does not overlook the nuances which high net worth individuals face, including the aspect of geometric returns and taxes.

Part II continues with the processes of asset valuation and pricing dynamics. It covers discount rates (i.e., interest rates) and the related topic of inflation, turns to dividend yields and growth thereof, PE multiples and persistence of earnings, and finally relationships between equity markets and fixed income markets in terms of volatility and correlation. The chapter concludes with reviews of two especially interesting studies: (1) a review of factor performance, i.e., size and style (Fama and French), momentum (Chan, Jegadeesh, and Lakonishok) and liquidity (Ibbotson); and (2) a review of predictors (Ilmanen).

Successful portfolio construction and asset allocation process

Part III, an extensive chapter deals with the components of process of assembling an efficient portfolio. Without going into excessive detail in this review, this chapter can be summarized as a discussion of three overall topics in the assembly process plus a discussion of tax considerations which Lussier has included throughout his book in order to assist high net worth investors and their advisors.

The three overall topics are: (1) understanding nonmarket-cap investment protocols, (2) portfolio rebalancing and asset allocation, and (3) incorporating diversifiers. These include important and wide-ranging discussion of (to name a few): (1) risk-based vs. fundamental-based protocols, (2) rebalancing methodologies, and (3) diversifiers in the form of commodities, currencies, and private markets.

The fourth and final topic concerns tax impact of gains, tax losses, and deferred taxes and contains two very practical case studies on tax efficient investment planning.

An overall coherent framework

Part IV contains an excellent discussion on liability-driven investing (LDI) aimed squarely at the pension community. This is a highly relevant topic today and is very well covered, including a valuable discussion on duration and convexity, topics often underappreciated by the pension community. I was very happy to see also a discussion on franchise value (Liebowitz), a valuable and probably underappreciated topic in duration discussions.

Part IV concludes with a case study which draws together much of the processes in the preceding chapters.

Conclusions

Needless to say, this book is recommended reading for anyone remotely interested or involved with investment management: pension plan managers and sponsors, investment managers, investment consultants, financial advisors, and high net worth individual investors and their advisors who have an appetite for high-quality investment management advice on process. Successful investing is indeed a process and this book sets it out extremely well.