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INTERVIEW FINANCE

INTERVIEW JACQUES WINTERMANS

FOUNDER AND DIRECTOR OF MEESMAN INDEXBELEGGEN

In this interview Jacques Wintermans gives his view on a variety of topics. He explains for instance the major difference between index tracking and active management in terms of risk and return. Further he talks about the future of investment tracking.

Could you briefly introduce yourself and the career path you chose?
I am a Civil Engineer by training but never worked as such. I started working in the travel industry during and immediately after my studies at Delft University. After that, I was a logistics manager in a factory for seven years, then seven years a marketing manager of telecom equipment in the Far East, followed by 18 years in strategic consultancy and now 10 years in fund management.

What were your rationale for founding a company focused on investment tracking?
Ten years ago Hendrik Meesman asked me to team up with him to start Meesman Index Investments to promote index funds. We were the first to do so in the Netherlands. He gave me a book, 'Common Sense on Mutual Funds', by John Bogle. After I read it, I was surprised. Scientific research had established beyond reasonable doubt that index tracking is a better investment option than active investing, mainly because of low costs and the difficulty of predicting stock prices. But most retail investors in the Netherlands had never heard of index investing. That's when I decided to write my book 'De Schitterende Eenvoud van Indexbeleggen' *('The Beautiful Simplicity of Index Investing')* for the Dutch market.

How come this strategy isn't that popular yet compared to for example the United States?
Since most Americans have to take care of their own pension, they are forced to find the best way to invest their money by themselves. That's why the average American knows much more about index investing than people in Europe. Also, American journalists write more – and better – about investing than their colleagues in Europe. There is a long running public debate in the US about the pros and cons of index tracking. As a result, index investing is very popular in the USA. More than 100 million people in the US invest in index funds. In 2014 more people invested in index funds than in active funds.

If 'only' an index has to be tracked, what are your tasks during a normal workday?

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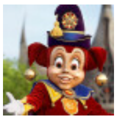

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We make sure our processes run safe and smoothly. We give presentations. We talk to clients. We answer their questions. We are always looking worldwide for the best index funds to offer to our clients. We publish blogs and columns. We report to the regulatory authority. We grow 50% per year in clients and assets under management, so there are lots of things to do.

Could you explain the major differences between index tracking and active management in terms of risk and return?

The objective of active investing is to beat the market while the objective of passive investing is to follow the market. In order to beat the market you must be able to predict stock prices. Without this talent you fail. If your objective is to follow the market, there is no need to predict stock prices. So the key success factor for active investing is prediction of stock prices. What does science tell us about the ability of humans to predict the direction of the stock exchange? Virtually all studies (I mean 99.9%) during the last half century tell us that investors are unable to predict stock prices or market movements. This is true for private and professional investors. Both fail to successfully predict stock prices over the long run. If professional or private investors beat the market over a certain period, it is luck, not skill. And luck does not repeat itself indefinitely.

I strongly advise people who can predict financial markets to invest actively. They will become rich. However, if you do not possess this rare talent, I strongly advise to invest in index funds. In the end they will be a lot richer than failed active investors.

How to invest passively? Just buy a broadly diversified index fund and that's all you do. Don't step in and out of funds, just do nothing after you have bought the right index fund. Return is on average better than active investing and because of broad diversification, risk is less than active investing. People who invest this way for their retirement, are twice as rich in old age as people who chose active investing, but failed.

If any, what are the drawbacks of adopting a passive strategy?

It's not exciting. However, it's better to have a dull investment strategy and live an exciting life than the other way around.

To what extent is investment tracking dependent on the level of active management?

This is a frequently asked question but not so difficult to answer. If a high percentage of invested money, say much more than 80%, would be invested passively, it would become attractive again for clever people to invest actively again. This is because prices of securities will deviate more from their underlying value if the volume of transactions decreases substantially. The market will be less efficient if it is quiet on the stock exchange. However, less than 20% to 30% of the money is presently invested passively. So in the short run, it is better to invest in index funds. There is more than enough ADHD on the stock exchange. And don't worry about the long term. There will always be more people who think they can beat the market by active investing than sensible people who buy index funds.

Nowadays, there's ample supply of tracking products. Is this a healthy development or do you fear negative implications? How do you know which tracking investment firm to choose from?

No, this is not a healthy development. The pure and best way to invest passively is to buy two broadly diversified index funds at low cost and stay invested for the long term: one worldwide equity fund and one fund of safe bonds. Just rebalance this pair every year. However, it is difficult for the financial sector to earn enough money with this simple way of investing. That is why they invented ETF's. They hijacked the simple idea of index investing. There are now thousands of index funds in the shape of ETF's. They are not broadly diversified but targeted at narrow slices of the market. People go in and out of these narrowly defined ETF's on the basis of their predictions for future return. They trade actively with ETF's. This way of 'active investing in passive products' is as ineffective as traditional active investing.

How do you see the future of investment tracking?

Tracking will definitely grow, especially in Europe. Newspapers are starting to write about the difficulty active managers have in delivering added value for money. But passive investing will always stay smaller in volume than active investing. 'Mundus vult decipi', said a Roman sceptic two thousand years ago, which means: 'The world wants to be deceived.' Human beings are not rational. Especially in investing, they will never act fully rationally.

Last but not least, could you give any advice towards students interested in the world of investment?

If you want a well-paid and fascinating career, don't hesitate to find a job in active investment management. But if you want to do something socially and economically useful with your life, you must find something else. Why? Because active investing is a zero sum game. If an active manager earns a dollar for his client, another investor will lose a dollar. Active investing does not add much value to the economy. For students who want to become financially independent later in life, I advise them to start investing periodically as soon as you receive your first pay slip, say € 100 per month, in a broadly diversified low cost index fund.

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