Twitter Thread by ContrarianEPS

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think different

Sheepish behavior. Finally, once a fund becomes successful, its managers tend to become timid and imitative. As a fund grows, its fees become more lucrative—making its managers reluctant to rock the boat. The very risks that the managers took to generate their initial high returns could now drive investors away—and jeopardize all that fat fee income. So the biggest funds resemble a herd of identical and overfed sheep, all moving in sluggish lockstep, all saying "baaaa" at the same time. Nearly every growth fund owns Cisco and GE and Microsoft and Pfizer and Wal-Mart—and in almost identical proportions. This behavior is so prevalent that finance scholars simply call it herding.[4] But by protecting their own fee income, fund managers compromise their ability to produce superior returns for their outside investors.

src: intelligent investor