Gross profits or Gross negligence

Paul Gambles, Managing Director

Through the Total Return Fund & other strategies, Bill has created more value for more investors than anyone in the history of our industry"

– Douglas Hodge, PIMCO CEO June 2014

Many investors seemed surprised by the news that "bond king" Bill Gross will leave PIMCO, the US$2 trillion fixed-interest focused asset management company that he co-founded in 1971, just when the gold standard had been abandoned and a whole new world of opportunities was opening up in currency and fixed income markets.

Gross will join the much-smaller Janus, a firm whose market capitalization is roughly 'only' on a par with Gross' US$2 billion personal worth, ostensibly to escape the distractions of running a giant firm and to get back to his main focus of running his clients' money.

Gross may have been exceptionally fortunate to time his career so well but over the last 43 years nobody came close to rivalling his ability to exploit the opportunity set that had been presented, until Franklin Templeton unearthed the mercurial talents of Dr. Michael Hasenstab. Nassim Taleb would probably claim that it's an accident of history that Gross came to the fore with his skillset at a time when he, and his investors such as ourselves, were handsomely rewarded for doing so. Taleb may also say that many equally capable individuals simply weren't in the right places or at the right times as Gross was able to build a behemoth that was sold to German financial conglomerate Allianz in 2000.

While that may be partially true, Gross has shown a real ability to adapt to changing economic conditions during those 43 years – even since around the time of the Allianz takeover, Gross' flagship Total Return Fund has earned a return of 164%, far above the industry's average of 116%, in the process becoming the world's largest mutual fund. However, some critics would decry its recent performance, suffering a 2% loss in 2013, lagging its 'benchmark' again this year and in today's instant age of knee-jerk decisions, suffering nearly a year and a half of outflows that have reduced the fund from an all-time high of US$293 billion last year to 'just' US$222 billion. Yet those investors are presumably only at the margins because Janus' shares increased by almost half on the announcement of Gross' plans whereas Allianz's share dropped 6%. This news has considerable repercussions in the Thai market, where a number of locally offered global bond funds invest into PIMCO and therefore may be affected by Gross' move. We're already preparing our client communications on this.

To me this is the latest in a trend. Tony Dye was famously fired from Phillips & Drew in February 2000 for his negative take on growth and especially tech stocks. Had his employers shown just a little more patience, they would have seen the value manager vindicated by the tech wreck which started almost immediately after Dye's exit, with The NASDAQ falling almost 80%.

Neil Woodford famously lambasted short termism, corporate greed and a culture of fear when deciding to turn his back on big corporations and strike out on his own. He revisited these themes in an excellent interview on Radio 4 last Friday, calling the investment management profession to account[1].

Martin Gray recently found out that outperforming the benchmark 3-fold for almost 20 years counts for nothing if your public company's bosses equate long-term strategy with their plans for the weekend after next.

It's a sad indictment of our short attention spans that as a society we seem to value immediacy over quality.

Sometime this is put into perspective for us and, on the same day that Gross left PIMCO, I was privileged to be at the funeral of a truly good man – an ex-soldier who'd fought for his country during WWII; an ex-teacher whose former pupils turned out in astonishing numbers to pay their last respects to a man who'd taught some of them 40 or 50 years ago, but whose guidance, encouragement and protection they still remembered very, very fondly; and above all a family man whose family and friends clearly now have a huge hole in their lives, even if they have so many fond memories with which to try to plug that hole.

So let's not go overboard on Bill Gross' new job, but let's try to remember the things that make a difference and which do last even in such an ephemeral world.

RIP Jim Birtwistle 1925-2014

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[1] http://www.bbc.co.uk/news/business-29371593

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3. An investment is not a deposit, it carries investment risk. Investors are encouraged to make an investment only when investing in such an asset corresponds with their own objectives and only after they have acknowledge all risks and have been informed that the return may be more or less than the initial sum.