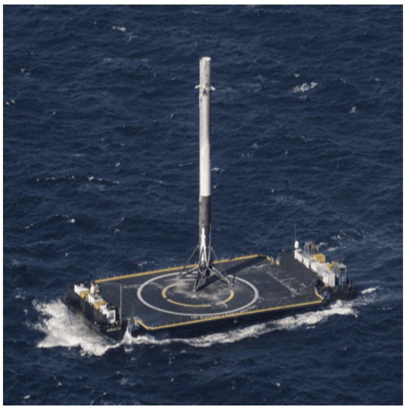

Beating the Market Doesn't Have to Be Rocket Science

Description

Most professional money managers who charge their clients exorbitant fees fail to beat the market consistently over the long-term.

There are many reasons for this, but one thing that's consistent is the fact that many of these "professionals" are pressured into chasing short-term gains to woo their bosses and entice new money to enter the fund. After all, these money managers aren't going to gain their handsome bonuses by settling on near-term underperformance in favour of longer-term gains.

I'm not trying to discount the abilities of an individual money manager or an investment counsel. Many of them are quite capable of finding real long-term winners, but many of today's actively managed funds are incentivized to cater to the demands of the general public. And it's conclusive that today's average investor wants to obtain the highest return over the shortest period while taking on the least amount of risk.

Talk about unrealistic demands! It's like asking for your cake and eating it too. One thing that's common among prospective fund investors is that they see the historical performance of a fund as a crystal ball. It's the promise of above-average results that drive new money into funds, and if a fund isn't delivering on its promise over the short term, investors will switch to the fund across the street at a whim. Not just on a year-to-year basis, but also on a month-to-month basis.

With few (if any) switching costs associated, many investors just won't give a fund a chance to shine over the longer-term, which is why many mainstream funds have adapted, even to the detriment of longer-term returns, to be too focused on attempting to obtain market-beating results over the short-term. This short-term thinking leads to excessive trading which in turn translates to higher fees. All of this isn't driving performance; it's just making a brokerage richer while the investor is left holding the bag.

Even if a professional money manager truly believes that a long-term story will eventually dictate the trajectory of a stock, they'll likely be forced to exit their position if no evidence of outperformance is witnessed over a short period.

As for investors willing to stick it out over the long-term, they may find themselves wandering into a fund that's catering to the vast majority of investors who want to make a quick buck. This long-term mindset in a short-term focused fund likely won't translate into above-average returns.

Jumping into the world of do-it-yourself investing

There hasn't been a better time in history to become a self-guided retail investor.

With tons of up-to-date information on individual businesses and many services to help guide you like the ones offered here at the Motley Fool, it's not too far-fetched to think that you can outperform a professional money manager while saving tens of thousands of dollars in obscene MER fees in the process.

Moreover, if you're content with a "set-and-forget" portfolio, you don't have to take many swings at overly complicated investment opportunities that you don't fully understand or have the time to make such swings. With a name like **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI), which has consistently beat the market over the long-term, at the core of your portfolio, it's actually not hard to give the TSX index a good run for its money as you take control of your investments.

Stay hungry. Stay Foolish.

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