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### ***What Ted's Thinking***

#### **The Next Alpha Frontier**

How will we generate returns to meet important spending needs in an increasingly unforgiving world?

One thing is for sure - the hardest day to invest is always today. And today, investment success feels as elusive as ever. Geopolitical, macroeconomic, and domestic concerns all present ominous risks to current and future investments.

Even without these likely hiccups at the macro level, competition has intensified both for managers extracting returns and allocators finding the best among them.

When I started my career, just knowing that hedge funds existed and having a rolodex with manager names led to investment success. The same was true for venture capital and private equity. Private credit wasn't even a thing.

Thirty years later, it's a whole different ballgame.

Traditional stocks and bonds don't appear priced to generate sufficient returns to meet long-term spending needs. Private equity, venture capital, and hedge funds may not either. As [Jeremy Grantham](#) said on a past episode of the podcast, "the market doesn't care that you don't have any easy or safe investments to make." Beta isn't likely to get you where you need to go.

Alpha isn't easy to find either. Managers battle [Michael Mauboussin's paradox of skill](#). They are more knowledgeable, better resourced, and more equipped with data than ever before. However, their enhanced skill as a group has not led to increased outperformance. What drives excess returns is the skill of one manager relative to others. All managers today are better than managers in the past, but the dispersion of their skill today is narrower. So outperformance is harder to come by.

The allocator community also has blossomed in breadth and sophistication since my early days working for David Swensen. A playbook that once commonly resulted in beating return hurdles – a thoughtful investment policy, diversification beyond traditional asset classes, manager selection in less efficient markets, and an alignment of interest with managers – is now little more than table stakes. Manager selection is also more challenging than ever.

The environment increasingly makes investing the loser's game that [Charley Ellis first discussed fifty years ago](#). Like the game of tennis for almost everyone who plays, the winner is the player who makes the fewest unforced errors, not the one who hits the most winners.

Fine-tuning elements of the investment process has become essential to minimizing mistakes and squeezing out every basis point of return. Winners going forward will be defined by those who make the fewest errors; not necessarily by those who find the next great opportunity.

I like to call this Internal Alpha.

Fortunately, the art and science of avoiding mistakes has also accelerated in recent years. The skills required to reduce unforced errors are learnable and timeless. They are put to work every day inside organizations (for better or worse), rather than in unstable external market environments.

How can you and your team generate Internal Alpha?

Across over 400 podcast conversations, I've learned skills I wish I had in my time investing from experts inside and outside of the investment field. After [publishing a book](#) in 2021 to share some of these concepts, I heard repeatedly from leaders in asset management that there's a gap in training allocators on the skills necessary to lead and deliver internal alpha.

So, we decided to do something about it.

Capital Allocators University teaches internal alpha to allocators with 5-15 years of experience looking to become leaders in the industry.

CAU includes modules on time management, interviewing money managers, improving decision making in the investment office, leadership, management, public speaking, networking, and negotiations. We cover a subset of these frameworks at each cohort of CAU. When networking, the value of doing dwarfs lessons in thinking, so our cohorts bring together a few dozen allocators to learn and share their experiences together. Some of the top CIOs in the industry join the "faculty" for Q&A sessions.

And it all happens in one magical day.

Our 2024 Spring cohort will take place at the Harvard Club in New York City on February 22nd, 2024.

We welcome you to [reserve your seat](#) in our cohort today.