



# A Peek into the PRIME QUADRANT®

**PLEASE JOIN US**

**THE PRIME QUADRANT CONFERENCE**

**2015**

**NOVEMBER 12, 2015**  
9:00am – 6:00pm  
Arcadian Court

## Upcoming Events

### Investor IQ Series

September 2:  
A Primer on Liquidity & Cash as an Asset Class

November 12:  
**The Prime Quadrant Conference**

### SOME OF OUR SPEAKERS



**SAM ZELL**  
Founder and Chairman of Equity Group, pioneer of the modern commercial real estate industry



**LEON BLACK**  
Founder, Chairman and Chief Executive Officer of Apollo Global Management



**MARC LASRY**  
Co-Founder and Chief Executive Officer of Avenue Capital Group



**JACK C. BOGLE**  
Founder and Chairman of Vanguard, creator of the first index fund



**PAMELA MEYER**  
Deception detection expert and bestselling author of *Liespotting*



**WILLIAM N. THORNDIKE JR.**  
Bestselling author, Founder and Managing Director of Housatonic Partners



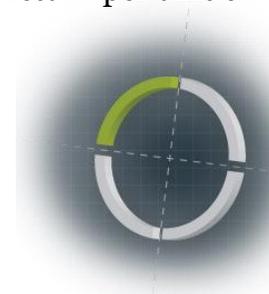
**CANDIDA WOLFF**  
Executive Vice President and Head of Global Government Affairs of Citigroup



**JOHN BADER**  
Chairman and Chief Investment Officer of Halcyon Asset Management

## What is the PQ?

In financial terms, the Prime Quadrant is the optimal zone in which you achieve the highest return per unit of risk.



We are quickly filling up! [Register today](#) to reserve your spot at the Prime Quadrant Conference.

## STORIES OF INTEREST

### [What the NFL Draft Can Teach Us About Investing](#)

Be it NFL General Managers or investors, no one is immune to behavioural biases that prompt imprudent decisions.

### [Meaningful Due Diligence Requires Looking in the Fridge](#)

Dig into the deep, dark corners to uncover what you (and others) may be missing.

### [Even with Investment Decisions, Less Could be More](#)

Attention all victims of the *Do Something Syndrome*: at times, our best move is to make no move at all.

### [When Your Brain Doesn't Sleep](#)

Here are just a few of the reasons we discourage losing sleep over your investments.

Being in the Prime Quadrant requires seeing the big picture and making intelligent choices, from among all investment options and strategies, to best meet your goals.

**Prime Quadrant is an investment research and consulting firm that helps high-net-worth Canadians make better investment decisions.**

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[In Search of the Prime Quadrant: The Quest for Better Investment Decisions](#) now available at Amazon, Barnes & Noble and Indigo.



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## THE WAY WE SEE IT

### The Paradox of Private Equity Performance

*Excerpt from our recent IQ Series on private equity investing, "Barbarians, Builders or Both?"*

Data compiled by Cambridge Associates, comprising the most widely adopted index for private equity, demonstrates that for any period over 10 years private equity beats the pants off every other asset class.

Presumably that's why over 80% of all dollars invested in private equity come from sophisticated institutional investors (i.e. pension funds, endowments, insurance companies, etc.)

Regrettably, that seems to be only one side of the story, as countless studies on private equity suggest less than favourable results. Studies show that:

1. Private equity moderately outperformed large-cap stocks, but actually underperformed small-cap stocks.<sup>1</sup>
2. By using similar leverage in the public markets as is used in private equity funds, the returns from the S&P 500 would multiply by 3 times, far outperforming your average private equity fund.<sup>2</sup>
3. After accounting for fees and carried interest, private equity underperformed the S&P by 3.3%.<sup>3</sup>

*How do we reconcile the stellar performance of the Cambridge Associates index and the reams of empirical data that proves otherwise?*

Firstly, Cambridge's index suffers from survivorship bias: assessing the performance of a certain group only by looking at those that "survived", and inadvertently overlooking those that did not. The 10-year survival rate of private equity stands at about 34%.<sup>4</sup> Inevitably the numbers in the index, including only funds that survived, will be far better than numbers that also include all the funds that died off.

Second, the research is conducted on averages. The *average* private equity firm hasn't done well, but those at the top end have done exceptionally well. Private equity, more so than any of the asset classes, has the widest dispersion, or the largest difference between poor and exceptional performers, with nearly a 1500 basis points difference between the 1<sup>st</sup> and 3<sup>rd</sup> quartile managers (as opposed to a 20 basis points differential in fixed income).

*Why is the dispersion so wide?*

Because information on public markets is widely available, there are many index-huggers and countless copy-cats, merely replicating the

portfolios of Warren Buffett, Bruce Berkowitz, or Bill Ackman.

On the flipside, in private equity markets, you can't buy the same company or have the same portfolio as Leon Black (CEO of Apollo, the largest private equity firm in the world, and speaker at our upcoming conference). Since everyone is left to fend for themselves, the diversity of talent is much more evident.

What that means is that the jockey (i.e. the manager) is more valuable in private equity than any other asset class. As usual, manager selection is paramount, and quite possibly the most important decision to make.

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<sup>1</sup>*"The Only Guide to Alternative Investments You'll Ever Need" by Larry E. Swedroe & Jared Kizer, pg. 125, 2008*

<sup>2</sup>*"Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment" by David Swensen, 2000*

<sup>3</sup>*"The Performance of Private Equity Funds" by Oliver Gottschalg and Ludovic Phalippou, 2005*

<sup>4</sup>*"The Returns of Entrepreneurial Investment: A Private Equity Premium Puzzle?" by Tobias J. Moskowitz and Annette Vissing Jorgensen, Research 1952-1999*

**"It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts."** *Arthur Conan Doyle*



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**PRIME QUADRANT**  
BETTER INVESTMENT DECISIONS

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