

Buffet Slams Hedge Funds

Stockholm (HedgeNordic) - Warren Buffet has sharply criticized hedge funds for the increasingly common criticism of delivering inferior results to their investors while charging high, sometimes exorbitant fees. His comments came in his annual shareholder letter, reprinted over the weekend in the Berkshire Hathaway 2016 annual report, and took up no less than 5 pages of said letter.

“When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients,” Buffet said in his letter.

By way of evidence he provided a comparison of the 10-year performance bet between a low-cost S&P500 index fund administered by Vanguard, in which he is invested, and Protégé Partners, an asset manager banking on the average performance of five funds of hedge funds it picked. After 9 years, Buffet said, his index fund had registered average gains of 85.4%, while the average for the five funds (whose identities remain undisclosed) was 22%.

Buffet went on to call Vanguard founder Jack Bogle a “hero”. “If a statue is ever erected to honour the person who has done the most for American investors, the hands-down choice should be Jack Bogle,” Buffet wrote. “In his crusade, he amassed only a tiny percentage of the wealth that has typically flowed to managers who have promised their investors large rewards while delivering them nothing — or, as in our bet, less than nothing — of added value.” Investment manager Vanguard made its name and business in large part on offering products for a fraction of the cost of traditional money managers.