

Marketocracy lets you place money with the best

Posted By [Matt Marshall](#) On 19th February 2007 @ 19:53 In [Business and Technology](#) | [12 Comments](#)



Mutual funds are surprisingly dysfunctional, and yet you rely on them for your retirement.

[1] [Marketocracy](#), a six-year-old start-up in San Mateo, may have just brought some sanity to the process.

First, some context: U.S. investors have \$4 trillion wrapped up in equity mutual funds, but our decisions about which funds to invest in are almost always made on the fund's past performance, or vague guesstimate about how it will do in the future — which is a pretty flawed strategy. In fact, individual fund managers are the ones making the investments, driving the fund's performance, yet there's almost no way to track their track records. If a stellar manager leaves a fund, we don't usually find out about it. A fund's performance is made of decisions made by several professionals, typically one manager and two analysts. These professional can come and go, and a team can unfairly carry the stigma of bad decisions made by a team before them, or enjoy the reputation of a great team preceding them. Moreover, if the fund is mandated (by its prospectus) to invest in real estate, it'll invest in real estate even if it sucks at the time.

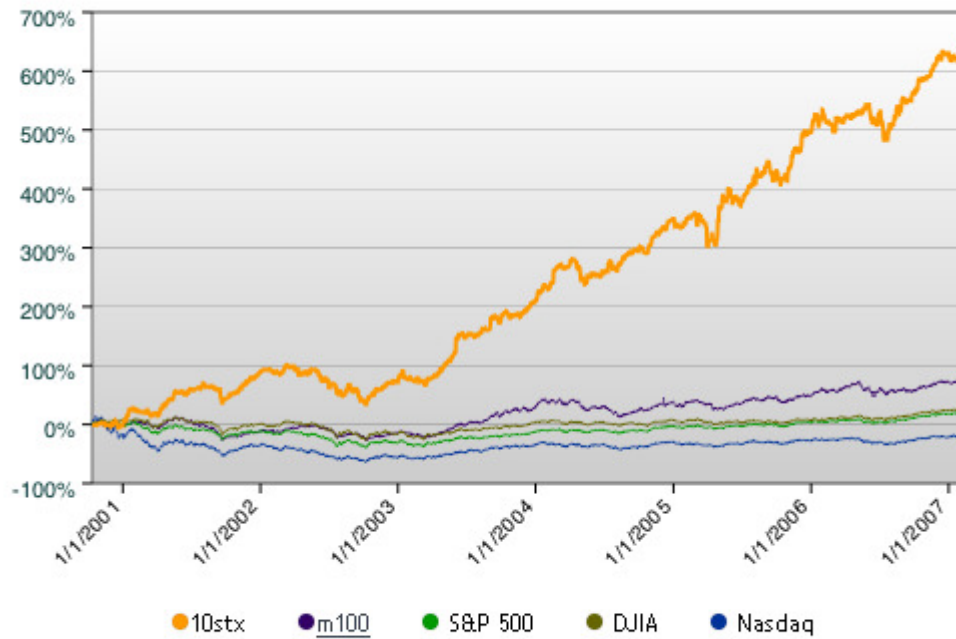
That's where Marketocracy comes in. It has given individual managers a report card, and lets you invest your money with the top performers. Tomorrow, the San Mateo company opens four virtual funds, made up of the stock picks by the top four of Marketocracy's 80,000 participating managers. Marketocracy tracked their records over the past five years, giving them a virtual \$1 million to invest, and factoring in transaction fees and other costs.

How well did these guys do? The top guy returned a surprising average of 44.77 percent annually, compared to the S&P's 7.06 percent. The second, third and fourth guys averaged 37.66 percent, 36.99 percent, and 30.01 percent, respectively. The No. 1 guy, Chris Rees, an investor who lives in the Dominican Republic, even beat out the top fund tracked by mutual fund research firm, Morningstar, which saw 41.03 percent. The next ranked Morningstar fund saw a 35.36 percent performance. However, these Morningstar funds were focused on particular industries — the first on natural resources, the second on real estate — which did especially well over that period. Because those funds were pre-mandated to invest in those areas, their performance was tied to luck as much as brains. The Marketocracy guys were impressive because they pulled off stratospheric returns even though they invested in anything they pleased (they did have a requirement to invest in multiple stocks, however, with eight being the minium).

VentureBeat talked with the No. 1 guy, Rees (see chart below, which shows how he killed the market, [2] [year in and year out; see more details here](#)). See our interview with Rees below.

Marketocracy has raised \$16 million for the project — from US Venture Partners, Formative Ventures and several individuals. Formative Ventures' Clint Chao says he's placing some money on managers himself. Marketocracy was started by co-founder and chief executive Ken Kam and President Mark Taguchi. They managed a fund during the bubble era, called the Firsthand Technology Value Fund, which was ranked No. 1 fund by Lipper for five years. Remarkably, the two exited the business in late 1999, before the bubble burst, to start Marketocracy — precisely because they realized how silly and overvalued the stock market had become. They looked on as mutual funds kept investing, against all logic — because of institutional mandates.

CUMULATIVE RETURNS SINCE INCEPTION



Returns are after all implied fees including 5¢/share transaction fees, SEC fees, management and administration fees of 1.95%

You can invest in the four masters at Marketocracy [3] [here](#). Marketocracy has partnered with [4] [FOLIOfn](#), an online securities firm to manage the back-office transactions. The minimum investment to participate in these funds — called mFOLIOs — is \$10K. You can invest in a blend of the four masters if you want.

What follows is an interview with Chris Rees, who was No. 1 out of more than 80,000 individuals tracked by Marketocracy. He has a Web site at [5] www.Tenstocks.com, where you can see more details on this performance.

VentureBeat: What's the trick?

Rees: There's no one trick. There's a group of tricks. You need to be very careful, you need to run scared, you need a great deal of discipline, you need to do your homework...I'm making thousands of decisions a year. Most of them are degrees of correct, and shades of incorrect.

VentureBeat: .. and a little insider knowledge, perhaps?

Rees: In fact, it may be the opposite. I'm very remote, very isolated. I work alone. I'm not influenced by Jim Cramer, or CNBC. I do the work all by myself. That makes me concentrate on what is important.

VentureBeat: Did you make your money in a particular sector?

Rees: I don't tend to focus on one area. I'm all over the place, I go everywhere. I don't have a field of specialization. Recently I've been putting money in energy companies, but I was not in the big energy run.

A good recent example is Elan (ELN), a company everyone loves to hate. I was a big buyer of Elan when it was at 3 dollars. They pulled the multiple sclerosis drug, Tysabri. The stock fell, and everyone on the planet was fleeing from this thing. Even James Cramer was on CNBC, saying Elan at \$3 was a submarine with a hole in it. I'd been covering it. I knew half of the story when they pulled it. I'd invested in it during previous meltdowns, when they'd pretty much pulled out the coffin. I read over 6,000 articles and opinions. They put it back on market, and it came back to life. (Elan trades now at \$14.81).

VentureBeat: Are you comfortable being made more public, and letting Marketocracy learn your secrets?

Rees: I had mixed feelings being involved in the project. I'm naturally a kind of reclusive kind of guy. I'm not sure if I'm going to be comfortable pushed out into the limelight a bit...

..I've been managing my own money for 20 years. I've got a public web site, where I publish my portfolio. I've been doing it since 1992. At some point it occurred to me that I seemed to be quite good. But I had no point of reference for how good. Then Marketocracy came along, which offered to let me run a portfolio, like a virtual clone of my own portfolio, to let me see how I am in relation to the market...I viewed Marketocracy as a reasonable proxy of the market — 80,000 people, some professional, some amateurs.

VentureBeat: Will you ever get tired, and give up?

Rees: I enjoy it. It suits my character. I'm a natural researcher, blessed with acute curiosity. I love digging, and spend a lot of time, work very hard doing it. At some point, I'll take up dominos, and find a tree to sit under.

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[2] year in and year out; see more details here:

http://m100.marketocracy.com/crees_10STX/1performance/

[3] here: <http://advisor.marketocracy.com>

[4] FOLIOfn: <http://www.foliofn.com>.

[5] www.Tenstocks.com: <http://www.tenstocks.com>

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