**Ervolini, Michael A. – Managing Equity Portfolios**

*MIT Press, 2014, [Equity Investing]* Grade ★★★★

When someone writes a book on a subject and at the same time runs a company offering a software solution to the issues discussed this generally throws up warning flags. In the case of *Managing Equity Portfolios* this is unjustified. The author is clearly passionate about solving the issue and not only about selling products.

The basic premise of this book is that money managers want to improve their skill but they are not sure how to do this. The reason is a combination of human biases and a performance measurement practice that looks to outcomes of a process with a very noisy cause and effect relationship, instead of the PM's skill at individual work tasks. This book aims to show a better way to improve as an asset manager and despite his commercial interests Michael Ervolini gives away large amounts of his pieces of the puzzle.

One part of improving as an asset manager is doing the right things. That is developing an investment process with a good prospect of accomplishing what its meant to achieve and that also fits the personality of the asset manager himself. Another part is doing things right - to perfect the details of the process to optimize performance.

This is where PMs run into trouble. They basically process information and then decide on which stocks to buy, how to size the positions and later which stocks to sell. Out of this process comes an investment performance and this can be measured from a number of angles showing out Sharpe-ratios, tracking errors, alpha, Sortino-ratios etc. The thing is, none of all these measures gives any real feed back to the PM. They are full of noise and only measure the end result not the skill in buying, sizing or selling. On top of things the investing environment is full of behavioral biases that set up effective roadblocks hindering learning when relying on memory.

*Managing Equity Portfolios* has three quite distinct parts that respectively make up about a quarter, half and then another quarter of the book. The long middle section consists of 34 short theses on asset management, behavioral finance and the perils of improving in the asset management occupation. They are not too dissimilar to the papers James Montier wrote when he was a strategist at Dresdner Kleinworth and at Societé Generale, but perhaps without some of the dry British humor. Some of Ervolini's theses overlap slightly but not enough to disturb the reading.

The opening and ending sections that frame all these short papers present the same learning issues in a longer more coherent form and then also bring forward solutions. The core of these solutions is developing a supplementary type of performance measurement that tries to capture the showed skill in buying, sizing and selling individually in some detail and by this provide the feedback that allows for improvement.

Add to the above chapters on keeping diaries and using checklists to counter behavioral biases and Ervolini in my opinion delivers on his aim to show a way to develop as a PM. As the topic is clearly underdeveloped in the asset management business and it also is urgently important, plus the fact that the writing is perfectly agreeable despite an academic touch, the book would warrant the highest grade if it weren't for its odd structure. Most of what is said in the opening and ending parts are repeated in essay form in the middle part – almost everything is said twice in this book.

To sum up, Ervolini makes an important addition to my knowledge that I'm quite sure I'll put to practical use.

Mats Larsson, June 01, 2016