

# INNOVATION AND FUND MANAGEMENT

Presented By:

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# Basics

- Innovation Defined – The means by which the entrepreneur either creates new wealth-producing resources, or endows existing resources with enhanced potential for creating wealth.
- Innovative Process – Systematic, disciplined exploration of new opportunities arising from changing knowledge, government attitudes, or public perception.

... *Peter Drucker, Harvard Business Review, 1985*

# New Knowledge

- Theories of Investment Value – Present value of future cash flows
- Valuation of Derivatives Securities – Calls, Puts, Swaps
- Portfolio Theory – Quantification of the value of diversification
- Capital Asset pricing Theory – Quantifying the relationship of return and risk

# Government Attitude

- Private Investment Helps Grow the Economy
- Market Forces Can Efficiently Channel Investment

# Public Perception

- Investing in Private Enterprise Can Provide Higher Returns
- Securities Markets are Risky, but Can Be Made Free from Fraud

# A Very Brief History

- Foreign And Colonial Government Trust, England, 1868
- Scottish Investment Trusts, Scotland, 1873
- New York, and Boston Trusts, U.S., 1893
- Massachusetts Investors Trust (Open-end), U.S., 1924

# Market Crash, Fund Abuse, Government Response

- Stock market crashes in 1929
- Worldwide depression 1929 – 1933
- In the U.S. – Securities Act of 1933; Investment Company Act of 1940; Investment Advisors Act of 1940

# Slow Start, Then Rapid Growth in U.S.

<b>Year</b>	<b>Bank Deposits (\$, Trillion)</b>	<b>Fund Assets (\$, Trillion)</b>
<b>1980</b>	<b>1.5</b>	<b>0.2</b>
<b>1990</b>	<b>2.7</b>	<b>1.0</b>
<b>1995</b>	<b>3.0</b>	<b>3.0</b>
<b>2000</b>	<b>4.0</b>	<b>7.0</b>

# Changing Nature of Fund Assets in U.S.

<b>Year</b>	<b>Money Market (%)</b>	<b>Bond (%)</b>	<b>Equity (%)</b>
<b>1980</b>	<b>76</b>	<b>6</b>	<b>18</b>
<b>1990</b>	<b>45</b>	<b>22</b>	<b>23</b>
<b>1995</b>	<b>26</b>	<b>28</b>	<b>46</b>
<b>2000</b>	<b>22</b>	<b>18</b>	<b>60</b>

# The Number of Funds Grow Dramatically

Year	Money Market	Bond	Equity
1980	100	170	290
1990	750	1,050	1,300
1995	1,000	2,200	2,500
2000	1,100	2,200	4,900

# Individual Shareholder Accounts Grow to 245 Million

<b>Year</b>	<b>Money Market (Millions)</b>	<b>Bond (Millions)</b>	<b>Equity (Millions)</b>
<b>1980</b>	<b>5</b>	<b>2</b>	<b>6</b>
<b>1990</b>	<b>23</b>	<b>14</b>	<b>25</b>
<b>1995</b>	<b>30</b>	<b>21</b>	<b>80</b>
<b>2000</b>	<b>48</b>	<b>20</b>	<b>177</b>