



The Ford car company rose to fame and success with the advent of the Model T. This hugely popular car revolutionised a generation not because it was technologically advanced, but rather, because it was reliable and reduced costs for the owner. According to **ANDREW COLIN**, founder of Flametree Research, the market for software analytics is in the pre-Model T days.



The Model T of investment analytics

I spend a lot of time listening to banks and other users of investment analytics tools talk about their problems. It is a sobering business, particularly when one sees the deep chasms between what people actually need and what's available in the marketplace, and I usually come away from such meetings with many new insights — and a renewed respect for the users.

Being interested in the history of technology, I have recently noticed some interesting parallels between one of the great industrial success stories of the 20th century, and the state of investment analytics today. The story is that of Henry Ford and the Model T automobile.

Meet the Tin Lizzie

The Ford Model T was introduced in 1908. The first mass-produced, affordable motor vehicle of its time, the car was a marvel compared to its predecessors; it was reliable, easy to maintain and could cope with the poor roads of the time. Best of all, it was cheap. The car sold for as little as \$260 (about four months wages for a manual labourer), while competing cars cost up to \$3,000. The combination of these two factors propelled the Model T — and Ford Motors — to fame and success.

One only has to look at what was on offer before Ford to see why. In the early 1900s, personal automobiles were more a labour of love than a serious means of transport. A horseless carriage, steered by a tiller, might have looked

good sitting in your driveway, but as a practical means of transport it was a dud. You probably needed a chauffeur and a mechanic to keep the thing going. When you did manage to get it out on the road, frequent refuelling stops and breakdowns were common. Instead, most people travelled by train, by horse, and on foot.

The Model T changed all this, and the car became hugely popular, with greater market penetration than the iPod today; at one point, nine out of ten cars in the US was a Model T. Ford ended up dominating the market for a generation, and revolutionised the way the US lived and worked.

To put it politely, Ford had some personal quirks. Some of his views were later endorsed by the Nazis. Yet as a businessman his skills were unparalleled.

He is widely credited with the idea of the modern production line. His factories paid a decent living wage, resulting in very low staff turnover. And the customers loved the product. The essayist E.B. White wrote

Mechanically uncanny, it was like nothing that had ever come to the world before. Flourishing industries rose and fell with it. As a vehicle, it was hard working, commonplace, heroic; and it often seemed to transmit those qualities to the person who rode in it. ('Farewell My Lovely', New Yorker, May 16th 1936).

by how much work goes into running and maintaining their systems, and how much it costs them. Only top-tier investment banks can even think about putting in fixed income attribution capabilities, although it would probably benefit all levels of market player.

You probably know the reasons. Most systems are quirky and hard to use. Collecting data gets a bad press, but often that's the least of the difficulties and is just a convenient place to lay the blame. Other problems range from sensitivity — where a tiny factor throws

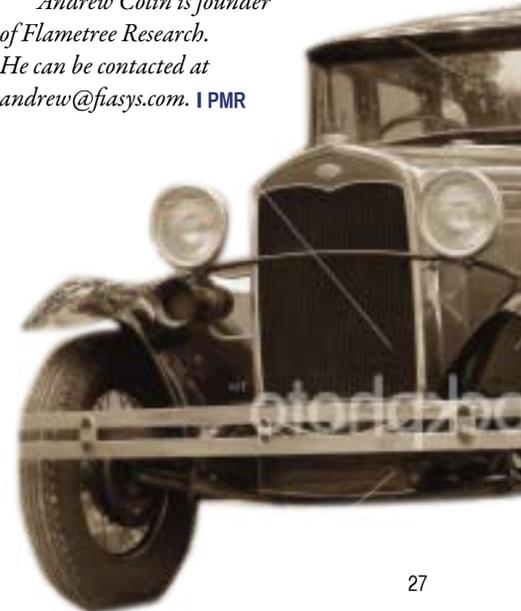
did for the automobile market a hundred years ago.

Remember that in the end, it wasn't extra features or fancy coachwork that made the Model T a success; it was the ability to get around, reliably and cheaply. Similarly, the ability to tell the story, accurately, reliably and affordably, is what will break the market for investment analytics wide open.

It's a lofty aim, but is it practicable? Personally, I'm convinced of it. Remember, Ford didn't bring any startling new technical innovations to the table. He just rethought the best way to build a good car. A hundred years on, we have cheap and abundant computing power, historical data, software libraries and the mathematical tools needed to build such systems. All that's needed is the best way to combine them together to achieve the same sorts of aims.

In this writer's view, the time is exactly right for a new Ford-style approach to investment analytics. The outcome will transform this vital investment service from an expensive, frustrating, customised sink of time and cash into a commodity. And the result will transform the market. It's happened before. It can happen now.

Andrew Colin is founder of Flametree Research. He can be contacted at andrew@fiasys.com. I PMR



Let me be blunt. Investment analytics in 2008 are still in the pre-Ford era. The first generations of vehicles required a disproportionate amount of cost and effort to run, just as today's attribution systems do now

How did Ford do it? Curiously, one of the most remarkable things about the Model T is the number of technical innovations that it didn't include. For instance, the wheels were the same as those used on artillery gun carriages.

Instead of using radically — and risky — new technology, Ford concentrated on the twin aims of simplicity and low cost, resulting in what we now call low TCO (Total Cost of Ownership). In particular, the car was the first automobile to be mass produced on an assembly line with completely interchangeable parts. This, more than anything else, boosted reliability and drastically reduced costs for manufacturer and owner.

Back to the future

Let's come back to the present, so you can see what vintage cars have to do with investment analytics — and in fixed income attribution in particular, which remains the Holy Grail of the industry.

Quick summary: The market for analytics tools is at the pre-Model T stage.

Every time I talk to clients about their analytics software, I'm staggered

out the whole report — to complex and unintuitive user interfaces and inflexible database management. "You need a degree just to run a report!" was one comment I heard recently.

But that's not the worst of it. Most importantly, there is the need to tell the story: what the client did, why they did it, how they did it, whether they were right or not, and the effect on returns. No attribution tools that I know of help you do this. Instead, you typically have to run anything up to five or six reports and combine them together — by hand — to work out why a portfolio performed the way it did. For one portfolio a month, this might be acceptable, but for a hundred?

Systems that are expensive to maintain, hard to use, and need deep specialised knowledge to run the most basic tasks. Sounds familiar?

Let me be blunt. Investment analytics in 2008 are still in the pre-Ford era. The first generations of vehicles required a disproportionate amount of cost and effort to run, just as today's attribution systems do now. I believe that a rethought approach can revolutionise investment analytics today, just as the Model T