

Long-Termism Versus Short-Termism: Time for the Pendulum to Shift

A Long-Term Solution to A Short-Term Mindset

In our most recent issue of AIAR (Q4 2016), we explore the issues public companies face with having a short-term mindset, and propose a new paradigm in how to combat that with what some would define as innate behavior. Not only is the approach intuitive, it properly defines which group(s) could have the most impact; CAIA Member exclusive access (must be logged in).

[The full article may be accessed here.](#)

Summary:

In recent years there has been an uptick on debates centered on the detrimental impact of the short-term mindset of many public companies. Short-termism does exist; corporate sentiment, investor holding data, and secular trends highlight the short-term pressure that companies face and the tradeoffs they are making. Needless to say, there have been many attempts at addressing this problem; one which sheds a new light is the investment value chain. The investment value chain includes three key participants: corporations, asset owners, and asset managers. In the past, burdening companies to deal with short-termism alone has proven to be ineffective, with institutional investors holding shares for shorter time periods and activist investors lying in wait. Therefore to institute real change, there has to be a paradigm shift, such as focusing on the asset owners who control the capital. Ultimately, they alone have the leverage to effect real change. What we have seen is a coalition of large-asset owners realizing the need for change and putting forth recommendations on how the asset owner community can adopt long-termism principles. In transitioning to long-termism, an important element is incorporating long-term metrics. Long-term metrics are both industry specific and sustainability oriented, and they are just as important as GAAP financial measures in following a long-term, value-creation investment process. Within ESG, governance is the sustainable metric that has been viewed by most investors as the salient variable for corporate performance, with environmental and social not too far behind.
