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### Abstract:

Casual observation suggests the prevalence of a "Santa Claus" approach to fund allocation, that is, giving more money to fund managers whose performance has been "nice" (good) in the recent past and less to those whose performance has been "naughty" (poor). We show that this backward-looking "Santa Claus" approach to asset allocation is not consistent with optimal portfolio management and that this may have contributed to the poor performance of financial institutions' real estate portfolios. We also discuss the role of loan-to-value ratio analysis and point out how this standard bank loan underwriting procedure may have affected commercial banks' "Santa Claus" strategy. We propose that this backward-looking strategy be replaced by either a simple buy-and-hold strategy or a contrarian investment strategy of increasing real estate exposure after a market downturn and reducing exposure after a market rally.

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