

The *Ambachtsheer* Letter

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PARADIGM FOUND:

REINVENTING ACTIVE INVESTMENT MANAGEMENT

“[Active management] is like a game of Snap, of Old Maid, of Musical Chairs. He is the victor who says ‘snap’ neither too soon nor too late, who passes the Old Maid to his neighbour before the game is over, who secures a chair for himself when the music stops. These games can be played with zest and

Keynes’ Critical Insight

Keynes’ opus “The General Theory of Employment, Interest, and Money” is usually associated with a revolutionary revamping of macro economic thought. Here we argue that it also contains the basis for a revolutionary revamping of the current institutional investment paradigm. As this revamping has been our quest since last fall, we make time here to take full measure of Keynes’ contribution. The result is the radical repositioning of ‘active management’ in a new institutional investment paradigm.

Keynes’ critical insight is the unbridgeable chasm between long horizon investing and short horizon investing. The former focuses on estimating and valuing prospective long term cash-flows; the latter on predicting short term absolute or relative security price movements. In Keynes’ view, long horizon investing and short horizon investing are two totally different, independent activities. Indeed, he thought them morally different too. The former is ‘good’ (eg., “It is long term investors who most promote the public interest”). The latter is, if not ‘bad’, then certainly trivial (eg., “He is the victor who says ‘snap’ neither too soon nor too late”).

Time Span and Investment Paradigms

Here we are not so much interested in Keynes’ moral tastes as in the implications of his ‘differing horizons’ insight for revamping the current institutional investment paradigm. Of course the current paradigm already makes the distinction, at least notionally. Asset mix policy is supposed to be set with a long horizon in mind. Active management mandates are handed out with the presumption that shorter term views about absolute and relative price movements can ‘add value’ to the asset mix policy return net of their incremental costs.