

The *Ambachtsheer* Letter

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‘PERSISTENT INVESTMENT REGIMES’ OR ‘RANDOM WALK’?

EVEN SHAKESPEARE KNEW THE ANSWER

*“There is a tide in the affairs of men
Which, taken at the flood, leads on to fortune,
Omitted, all the voyage of their life,
Is bound in shallows and in miseries”.*

William Shakespeare

The Ambachtsheer-Siegel Debate Revisited

The reviews on the March 25 Ambachtsheer-Siegel ‘stocks for the long run...or not?’ debate were good, at least from an entertainment perspective. As one attendee put it, “a lively boxing match, with both parties landing telling body blows”.

Frankly, the 500 *Commonfund* conference attendees would have been better served with a decisive Ambachtsheer knock-out punch. In other words, a decisive victory for the view that major secular shifts in stock market valuations result not from random draws out of some politico-economic black box, but from discernable long-term shifts in investor psyches. The ‘regime’ theory holds that such shifts alternate between optimistic and pessimistic mindsets, take many years to complete, and then stay in place for many more years once the shift has occurred.

Why do we believe that a decisive victory for this viewpoint would have been a good thing? No, this is not about ego. It is because such a victory would have decisively moved 500 influential institutional investors away from seeing the 2000-

2003 period as just a piece of rare bad stock market luck, soon to be replaced by much happier draws out of the stock market returns box. The absence of such faith would require them to fundamentally re-examine their ‘investment business models’, whether endowment or pension fund related. We have been arguing for the need of such a fundamental re-examination since the late 1990s.

All this gets us to the goal of this *Letter*: to make the ‘knock-out’ punch case that the ‘persistent investment regimes’ theory is far more than just an interesting idea. Indeed, that this perspective has been, and continues to be the soundest foundation on which to construct investment policies for pension and endowment funds. To make the case, we argue from observation to theory, and then back again. You will see that it all the pieces fit together very well.