

The *Ambachtsheer* Letter

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RETHINKING ‘INVESTMENT STYLES’

“It might have been supposed that competition between experts, possessing judgement and knowledge beyond the average investor, would correct the vagaries of ignorant individuals left to themselves. In fact, the energies and skills of these experts are largely concerned, not with making superior long-term forecasts of the probable yield of an investment over its whole life, but with foreseeing changes in the conventional basis of valuation a short time ahead of the general public”.

John Maynard Keynes, 1936

Keynes and Investment Beliefs

Last month’s *Letter* referenced *Harvard Management Company* and *Ontario Teachers*. We asserted both were good examples of value-creating investment institutions that have four ‘success elements’ in common. One of these elements was “investment beliefs that can stand the tests of reason, informed debate, and occasional revision when new evidence comes to light”. The goal of this *Letter* is to examine the question of investment beliefs, and the framework we might use to address it, in greater detail. This examination in turn leads to a new and more useful way to define ‘investment styles’.

Some of you will recall prior *Letters* touching on issues relating to investment beliefs started with some quotation from Chapter 12 of Keynes’ famous 1936 opus “The General Theory of Employment, Interest and Money”. We do so yet again here. Why? Because this chapter (titled “Long-Term Expectations”) offers profound, timeless insights on the question of investment beliefs. Indeed, the fact that almost 70 years ago, Keynes was able to put his finger on a malaise that continues to afflict the professional investment community and its clients to his very day, borders on a stroke of genius.

The malaise we have in mind comes through clearly in the Chapter 12 citation on top of this page. It is the idea that professional investing is all about beating benchmarks, and that the way to do that is to always be one step ahead of the ‘general public’. This investment paradigm inevitably leads to the ‘short term-ism’ that is widely lamented, but has yet to be addressed in a truly fundamental manner. We intend to do so in the pages that follow.