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BEYOND PORTFOLIO THEORY: THE NEXT FRONTIER

“...investment managers and advisors have a much richer set of tools available to them than they traditionally use with clients I see this as a tough engineering problem, not one of new science...”

Prof. Robert Merton
Harvard University

“One of the most interesting challenges of the 21st century will be the development of systems to help investors carry out the task of strategic asset allocation...”

Prof. John Campbell and Luis Viceira
Harvard University

Investment Theory’s Next Frontier: The Academic View

Notwithstanding the origin of the two kick-off quotes above, this *Letter* will not offer a survey of the current Harvard University thoughts on investment theory and its implementation. Instead, we offer these quotes as examples of a widely-held view by the finance and investment academic community at large as to where investment theory’s next frontier lies. The key words in the two quotes are ‘engineering’ in the one case, and ‘systems’ in the other. They reflect a perception that today’s challenge lies in figuring out how to place the incredibly powerful toolkit of financial decision-making processes and products invented by the academic community over the course of the last 50 years in the hands of individuals and their advisors.

The academic community can be justifiably proud of its intellectual achievements since the 1952 publication of Harry Markowitz’s Nobel Prize-winning treatise on portfolio selection. The Merton quote comes from his recent award-winning ‘Perspectives’ piece in the *Financial Analysts Journal* (“Thoughts on the Future: Theory and Practice in Investment Man-

agement”, Jan-Feb 2003). Campbell-Viceira’s comes from their recent award-winning book “Strategic Asset Allocation: Portfolio Choice for Long-Term Investors” (Oxford University Press, 2002). Both offerings focus on the implications of important recent advances in investment theory and research findings.