

The *Ambachtsheer* Letter

Research and Commentary on Pension Governance, Finance and Investments

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WHOSE 'INVESTMENT BELIEFS' DO YOU BELIEVE?

"In classical investment theory, all agents are assumed to know the true probabilities of all future events, given the state of the world today ..."

Woody Brock
September 2004

Convergence!

Regular readers of this publication know that the exposition of our new 5-component *Integrative Investment Theory* has this *Letter* scheduled to deal with Component #4 of the theory: 'Investment Beliefs'. Just as we began to think about how to handle our own treatment of this topic, Woody Brock's new quarterly report arrived in the mail featuring his "Reconstruction of Modern Portfolio Theory". In concluding the summary of his findings he wrote: "These results fundamentally vindicate the views of commentators such as Peter Bernstein, Gary Brinson, Keith Ambachtsheer, Rob Arnott, Jeremy Grantham and others who have been critical of much status quo thinking about asset allocation for many years..."

A propos of all the above, this *Letter* starts by defining some ground rules to guide our quest to articulate statements of investment belief that can withstand the dual tests of reason and empirical evidence. Next, we retrace the 35-year evolution of our own thinking about defensible investment beliefs. Then we compare our own conclusions with some of Woody Brock's, as inferred from reading his 47-page treatise, and confirmed with Woody in a brief email message. The *Letter* concludes by observing that our investment beliefs too are at odds with those embedded in the classical capital asset pricing model, and which Woody takes exception with in his own treatise.