

The *Ambachtsheer* Letter

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“BUT WHAT DOES THE TURTLE REST ON?”

A FURTHER EXPLORATION OF INVESTMENT BELIEFS

“When I was in grade school, I learned that somewhere in India there is a Hindu tribe whose members believe that the Earth and the sky above it rest on an elephant, and that the elephant rests on a turtle...”.

Peter Fleck
“Come As You Are”
Beacon Press, Boston, 1992

“But What Does The Turtle Rest On?”

Peter Fleck grew up in Amsterdam, had a successful career as a New York investment banker, and then became a theologian. In reflecting on the Hindu tribe belief, Fleck writes that he remembers asking his teacher “yes, but what does the turtle rest on?” Much later in life, he understood: “In theology, there is a point beyond which no questions are asked. That point for most religious people is the turtle...”

Not so in other disciplines such as science and economics. Here we never stop asking questions. Answers to initial questions now lead to further questions. So *Letter* readers should not be surprised that when we began last fall to ask questions about investment beliefs, the initial answers would lead to further questions. For example, our initial questions led us to proclaim the belief that at a micro-level, short horizon individual security returns are marginally predictive, and that at a macro level, long horizon asset class returns are strongly predictive. Of course such beliefs about individual securities and broad capital markets predictability lead to

further questions. For example: what do we have to believe about capital market structures and participant behavior in order to justify our predictability beliefs? That is the profound ‘turtle’ question we address here.

Before we do, it is worth a moment’s contemplation why addressing questions about investment beliefs is so important. Logically, our investment beliefs should be the foundation on which we build and explain our investment policies and investment processes. So, for example, if a pension or endowment fund is run with a constant policy portfolio, and with its active managers required to closely track their benchmarks, what are the investment beliefs required to justify this behavior? If a corporate pension plan sponsor has a ‘Return on Assets’ assumption for the pension fund of 8.5%, from what sources does management believe that net 8.5% will come from? Maintaining an endowment fund payout policy of 5% should prompt a similar question: from what sources do the trustees believe the implied 5% net of inflation and costs will come from? These are fundamental questions deserving well-founded answers.