

# The Ambachtsheer Letter

Research and Commentary on Pension Governance, Finance and Investments

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## ‘INVESTMENT BELIEFS’ IN THE 21<sup>ST</sup> CENTURY:

### SEPARATING SIGNAL FROM NOISE

*“Everyone knows that accelerating information overload is one of the central problems besetting investment managers in today’s Bloomberg era. Bombarded by ever more factoids and divergent perspectives, it is difficult for an investor to know what issues, much less what variables to focus on...”*

H. “Woody” Brock  
SED Inc., May 2007

#### The ‘Sub-Prime’ Crisis in Context

Dog-days of summer notwithstanding, financial markets volatility around the world has been spiking upwards by leaps and bounds. Copious quantities of airtime and print space are being devoted to explaining to nervous investors what ‘sub-prime’ mortgages are, why these instruments are now roiling financial markets around the world, and what investment decisions should now be taken. Not surprisingly, seemingly sensible recommendations are all over the map, ranging from getting out of the way of a looming financial train-wreck, to simply sitting tight, to holding a buying basket under subsets of securities (e.g., ‘prime’ mortgage-backed securities) which are now being dumped at prices that appear to be well-below their intrinsic value.

The intent of this *Letter* is not to add to this cacophony of ‘sub-prime’ crisis explanations and recommendations. Instead, it is to sketch out a ‘big picture’ framework that will not only help make good investment decisions under (always) uncertain circumstances, but will also make those decisions transparent and defensible. The foundation of this decision framework is *Integrative Investment Theory (IIT)* with its five value-drivers of (1) agency cost minimization, (2) governance quality maximization, (3) valid ‘investment beliefs’ articulation, (4) relevant risk

measurement and management, and (5) integrative decision-making/implementation. We focus here especially on value-driver (3): valid ‘investment beliefs’ articulation.