The Journal of Portfolio Management

What this Journal is about

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The maiden issue of this Journal appears at a critical time for our profession.

The dismal record of portfolio management over the past five years needs no elaboration. The causes of this record, however, are far more obscure than its painful visibility. With all the research input, the sophisticated economic analysis, the jolly conferences, the attention to decision making structures, and the increased understanding of risk and reward, how could so many have failed to see that all the known parameters were bursting apart?

It is not enough to say that few people in any other walk of life knew what was coming or that their bad forecasts brought down upon us these unexpected disasters. Our profession probably receives a wider variety of information from more sources than any other group in the world. It is, furthermore, composed of people with unusually high levels of intelligence, training, imagination, and motivation.

Nor can the academics sit back with a smug smile and tell us that it was precisely our massive inputs and intimate intercommunication that made it impossible for most of us to get to the exits before it was too late. All of us would agree, I think, that simply holding a well-diversified, risk-adjusted 100% equity portfolio through this period would have been a counsel of despair.

Nor have the regulators — both the parochial and the government types — covered themselves with glory. Their main expertise continues to be in locking barn doors after the horses are stolen. Their only original contribution to the scene has been to choose a poignantly troubled time in which to shove a brutally competitive business into a new environment that will ultimately lead to a rigid monopoly ruled by giants.

Yet, as we see in most of the discussions in this Journal, none of us can avoid being haunted by the academic diagnosis. We can neither all sell at the top — for then it would be the bottom, nor all buy at the bottom — for then it would be the top. But even this is no real excuse for so many performing so badly, for, as Zeikel argues, the record shows that we did have ample time to move to the exits and that the market was in truth far from efficient in reflecting the profound changes that got underway in 1969. Ambachtsheer also demonstrates that we would do better if we acted more often on the strength of our own convictions.

Whole new approaches and buzzwords have come into use from this litter of unhappy experiences. Rogers, Crowell, Vertin, and Williamson all focus on the one word that the academics persisted in warning us about during the 1960's but that too many of us stubbornly ignored: risk. The other major change, also reflected in many of these articles, has been to look at rate of return rather than at outperforming the market as an investment objective — and to join with the academics in recognizing that risk and return do bear at least some systematic relationship to each other.

Despite the evidence presented in Black's article, the one area that seems least affected by its disasters is security analysis and company research. To this observer, that comes as a surprise. While few people today can place any real confidence in an earnings estimate and while even fewer can use research on individual companies as a successful basis for stock selection, most analysts keep grinding out the material almost as if nothing had happened. Levy's article proposes a method for judging the value of this type of research, and we should expect the analyst, like the portfolio manager, to have to submit to much tougher quantitative performance standards than in the past.

Our clients, too, must deepen their understanding of the investment process. Hopefully, many of them will be readers of this Journal and will gain insights into how we address ourselves to our problems. Had the clients the insights suggested by LeBaron and had they understood more about the nature of risk, the difference between long-term objectives and short-term results, and the volatile character of equity investments, their level of expectations would have been entirely different. In particular, the wholesale defection of low-beta investors to the pied pipers among the high-beta managers during the 1960's might never have happened at all — which in turn would have meant that the individual investor might still be in the game, that Wall Street would be far more stable and healthy, and that professionalism among practitioners and satisfaction among clients would be significantly more prevalent today than is actually the case.

Finally, the academics are also going to have to change their tune. As Vertin points out so eloquently, their efforts to be heard were (and frequently still are) pathetic. Even putting the proliferation of mathematics aside, their arcane vocabulary was hardly one to win friends and influence people. Even worse, many of them still fail to understand the kinds of client pressures under which the portfolio manager works (as LeBaron makes clear in his article), the varied character of decision making structures, the rough-and-tumble of the trading desk, the ego-plays, and the frequent numbing sense of helplessness. Yet all of this has something to do with the functioning of markets and investment results.

Hence, the objective of this Journal is to provide a platform where practitioner, academic, regulator, and client can communicate with one another, can clarify the areas of agreement and disagreement, and can provide fresh viewpoints of the perennial problems of risk-adjustment, security selection, and timing. To this end, we invite your contributions and your comments.

We also plan to bring you words written long ago with special relevance to today's environment. None, perhaps, can ever equal Keynes's brilliant description of the contrasts between true long-term investing and the buying of stocks on the Exchange: it seems even more apt today than when he wrote it, nearly forty years ago.

If all of this can add to our understanding of what it is we are actually doing, the less the possibilities will be of another round of agonies and disappointments such as those we have just been through. If we can achieve even part of this objective, we will have done more than to protect the livelihood of the professional portfolio manager: we will hopefully have provided more meaningful protection to the value and purchasing power of the assets under his care.