Harry Markowitz in Finance

Thomas Schneeweis

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Several weeks ago, my brother and I were taking a break and while we were sitting down and having a cup of coffee, I happened to pick up a copy of the New York Times and noticed an article in Section B, ,Page 8 on the death of Harry Markowitz, "'Harry Markowitz, Nobel Winner who Rewrote Stock Strategy, Dies at 95". I was startled, given the place of Markowitz in the Pantheon of Financial Luminaries, I would have expected this notice to be on the front page of the New York Times. I started to discuss some of his contributions to finance before my brother raised his hand and pointed out he expected few of our customers to have a clue who Harry Markowitz or why he was important. Normally this would have been of no concern to me, but the prior day at the golf course he and I had started to discuss who the ancient god's of golf were (e.g., Bobby Jones, Sam Snead, Arnold Palmer, Mildred "Babe" Zaharias ….) and found that everyone in our group had some idea who these men and women were. But ours is an investment firm and I would hope our co-players (e.g., customers, …) would also recognize the names of some of the gods of our profession. Harry Markowitz was one of those financial gods.

Now you may wish to just trust me, but here is the issue, having some sense of who was there at the start and why they were makes the connection with the present interesting. For many in finance, investments can be separated into the periods 'before and after Harry Markowitz'. Why?" because many seminal articles in finance find their birth with Harry Markowitz. Prior to his dissertation "Portfolio Selection" in 1952, later described as Modern Portfolio Theory (M.P.T.), stock market selection was based primarily on individual assumptions on the benefits of individual companies. In Markowitz, the benefits of an individual stock in a portfolio was not based on the individual 'stand-alone' holdings of a series of investments but on how their price movement related to one another. This concept eventually grew the to the popularization of the "Efficient Frontier" which reflected the optimized return and risk tradeoff for assets on an efficient frontier. Moreover, his use and popularization of mathematics and codified computerization of portfolio modeling lead the way for the increased use and acceptance of financial modeling in financial decision making.

In 1999, the financial newspaper, Pension and Investment Age called him 'the man of the century'. There are of course other individuals who built on the work of Harry Markowitz to find a place of illiquid assets such as private equity and various alternative assets concepts to create a new world of Post-Modern Asset Allocation in which new assets (such as the place of human capital in an investor's modern portfolio) may be use as the basis for an investment in one long term portfolio. Note I have not spent time concentrating on some of the more modern 'popular' personal finance authors. They may have their place in providing a basis for some simplified basic investment approaches but for the most part, the true advancements in the management of wealth are not to be found in their writings but in the homes of the financial gods who have followed Markowitz.

1. William Sharpe (1962) - Designed Capital Market Asset Pricing Model (All stock returns are linked to the movement of the overall stock market).
2. Eugene Fama (1970) – Wrote on Efficient markets in which stock prices reflect all current information.
5. Fisher Black (1972) - Developed financial model that described the pricing of options and other means of downside risk protection

While Section B is a home, I would have expected that for a Nobel Prize winner and' a man of the century' a front page notice would have been more appropriate.

As a sidebar the New York Times reference to the obituary notes - How The Times decides who gets an obituary**.** There is no formula, scoring system or checklist in determining the 'news value of a life'. We investigate, research and ask around before settling on our subjects. There are times when One might expect that a 'god' might have received a little bit more than just the news value of a life.

Investment Education: Why Not Just Listen to the Best

Thomas Schneeweis

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Today a wide range of 'Web' sites exist which often include 'online' interactions with major figures in a particular industry. One 'Web' page included with a question and answer format with Nobel Prize winner, Bill Sharpe of Capital Asset Pricing Model Fame. William Sharpe was asked by his questioner what the most important lesson he had learned from his years in finance. Professor Sharpe answered: "There is no such thing as a 'Free Lunch' ". His questioner continued, "Well what financial ideas made you money." Bill's answer was that there was no single idea that constantly made money even his 'Concept of Diversification' was centered on how not to lose it. "But you are a Nobel prize winner" his inquisitor continued," there must be a way to make money risk-free". "No risk-free money," Bill continued. "It is almost impossible to predict where the price of something is going. If one knew its future price, it would already be there."

Well, if Nobel Prize Winner Bill Sharpe only believed a 'fool' believed that there was a 'fool proof' way to make money, there must be someone who has an answer on how change in information impacts changes in an asset's price. What of YES Wealth Management? For this I do have an answer. Words change, ideas change, technology changes, …. In short, the investment world changes but in this world we have to side with Bill Sharpe. If the change is well known, its impact will have already been priced in and more importantly, even if the change is unexpected, its impact will seen be soon after it becomes public.

This is the fun part of what we do and we look forward to doing it together with you.

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You Are What You Buy

Thomas Schneeweis

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Recently, I had to clear out my attic. Normally I had to commence with this expedition every five years, now it is every two years. The reduction in time frame is not due to any external variable such as a smaller space, but to increased junk; that is, more importantly non-usable everyday items that once were a vitale part of everyday life. Why, things simply do not last as long. In the past, one often kept a job that lasted many years, today we use our ability to handle change as a kind of badge of honor.

The same process exists in how we are connected to others in the finance world. Once we used bank accounts, accounts at life insurance or health insurance firms, or accounts at mutual funds or various investment firms. At these financial firms, how we invested or what we could invest in was based in part on the amount of total funds we have invested there or at the very least our answers to a detailed questionnaire as to what we were or at the vary least what we wished to purchase or invest in.

Increasingly, change in security form (e.g., ETFs, ..), change in global oversight (e.g.,cyber security, …) and detail information on what our current portfolio consists of often determines what process or products that are increasingly available to us at these financial firms. While I appreciate their interest in determining what products or trading processes are available to me, I increasingly find that what products I have available are determined by what I already own and their determination of what they want to make available to me. In short, they have a picture of what and where they think I should be based on what they see me to be and not on what I am. In act, how to access change or how we fit in a world of change should be part of how we view change and not on how change determines us.