WILEY FINANCE

TREYNOR ON INSTITUTIONAL INVESTING

JACK L. TREYNOR

Foreword by Jeff Diermeier, CFA
President and CEO, CFA Institute

CFA INSTITUTE

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ADDITIONAL PRAISE FOR TREYNOR ON INSTITUTIONAL INVESTING

"Along with Fischer Black, Jack has one of the most creative minds ever to think about financial economics. He has ideas, and more ideas, and like Fischer he swings at losers, but once in a while he really cracks one out of the park. Sometimes Jack is so far ahead of the umpire of the day that what first looks like a foul ball turns into an in-the-park homer, after one takes the time to inspect the replay more carefully. So step up to the plate with Jack, and take a swing."

—Mark Rubinstein, Professor of Finance, University of California at Berkeley, and author, A History of the Theory of Investments: My Annotated Bibliography

"Simply put, Jack Treynor is one of the giants in modern financial theory, having generated a virtually continuous flow of deep insights that have advanced our understanding of how investors behave and how markets evolve. However, because he was so often well ahead of his time, his work and its influence on the field has not been as broadly recognized as it should be. This treasure trove of Treynor's writings will help rectify that situation. By diving into any one of his papers, the reader will emerge with a new slant on the topic, and be so much the wiser."

—Martin L. Leibowitz, Managing Director, Morgan Stanley and Former CIO of TIAA-CREF

"This long overdue volume tracing the development of capital market theory and practice is a fascinating and insightful read covering over 40 years of Jack Treynor's published work. Unbelievable in scope and breadth for a single author, Treynor has pioneered thinking in nine major capital market topics. The reader will also be challenged by 18 short case studies."

—Donald L. Tuttle, PhD, CFA, Vice President (retired), CFA Institute, Charlottesville, VA

"Jack Treynor is one of the most respected contributors to the revolution in financial markets theory in the last half of the 20th century. The investment profession will be forever grateful to Jack for his intellect and insights and his relentless pursuit of discoveries that provide an advantage to the prepared and patient investor. Through his marvelous compilation of his articles and essays, the CFA Institute has recognized Jack's contributions and shared his legacy with current and future generations."

—John L. Maginn, CFA, Retired CIO Mutual of Omaha, President, Maginn Associates, Inc.

"Treynor on Institutional Investing is matchless. Jack Treynor, enigmatic market observer and participant, collects most of his investment wisdom—developed over a lifetime—in this phenomenal volume. Mr. Treynor is the missing link in financial economics; one whom many had overlooked and yet who, as the protege of Franco Modigliani and as the mentor of Fischer Black, first invented the Capital Asset Pricing Model. The insights in this amazing volume range far beyond asset pricing, covering risk, performance evaluation, micro- and macroeconomics, trading, accounting, valuation, active management, pension finance, and a host of case studies. If you only ever purchase one book on investing, *Treynor on Institutional Investing* is the bible!"

—Craig W. French, Partner, Director of Risk & Quantitative Research, Corbin Capital Partners, L.P.

“Jack Treynor is the quintessential giant upon whose shoulders we have stood to peer further into the mysterious and complex world of modern finance. Always ahead of his time, Jack challenges us to question conventional wisdom, and with the benefit of hindsight, our appreciation for Jack’s wisdom has grown deeper. This marvelous collection of Jack’s papers serves as testimony to his unique originality and prodigious intellect.”

—Mark Kritzman, President and CEO, Windham Capital Management, LLC

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JACK L. TREYNOR

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To Betsy Glassmeyer Treynor, who changed my life from black and white to Technicolor.

Foreword

Jack L. Treynor: An Independent Mind

This book, a collection of the writings of one of the most independent minds to tackle the financial market landscape, captures a number of ways in which the ever-provocative Jack Treynor influenced and touched the professional investment community over a period of decades. He reached many of us in two ways: (1) through published pieces of foresight and analysis that are now well recognized, and (2) through the individual guidance and advice that he has given to many of us. The book is part of a growing trend to recognize the many, and important, accomplishments of this esteemed practitioner.

If there is one way to sum up the contributions made by Treynor (and Walter Bagehot, his pseudonym for articles in CFA Institute's *Financial Analysts Journal [FAJ]*), it was captured in Perry Mehrling's book on the late Fischer Black.[1] Treynor is credited by many scholars with drawing Black into the world of finance, and the two collaborated and counterpointed for years. Speaking in 1997 at a meeting of the International Association of Financial Engineers, Nobel Laureate Paul Samuelson suggested that a "Hall of Fame of Theoretical Finance" list should include Myron Scholes, Robert Merton (who would go on to be awarded Nobel Prizes), and Fischer Black (who died before he could receive a Nobel). In the middle of his speech, after mentioning the innovation of the capital asset pricing model (CAPM) for which William Sharpe had won the Nobel Prize in 1990, another Nobel Prize winner, Franco Modigliani, rose and said, "What about Treynor? You forgot Treynor!"

He knew Treynor had developed a CAPM in 1962, because Treynor had shown the model to him, and Modigliani regretted that he had not seen its potential and encouraged Treynor to pursue it. “I made a mistake with Treynor,” he has noted. Treynor discovered the CAPM as a part of a journey to find better answers to the question of what was the appropriate discount rate to be used in capital-budgeting projects.

Ultimately, Black would write a letter of appreciation to Treynor as he was stepping down as editor of the *FAJ*, which read:

> *Your own research has been very important. You developed the capital asset pricing model before anyone else. But perhaps your greatest contribution has been through the work of others as Editor of the* Financial Analysts Journal. *Balancing academic interest, readability, and practical interest in a unique way, you guided issue after brilliant issue toward publication. I hope the profession will be able to repay you in some way.*[2]

CFA Institute, representing the investment profession, broadly, owes a huge debt to Jack Treynor. In 1981 as Treynor’s term with the *FAJ* was coming to a close, Charley Ellis, CFA wrote:

> *Financial analysts have been striving for many years to develop a strong profession. A profession depends explicitly upon a comprehensive body of knowledge. Great progress in developing our professional knowledge has been made, but not without the stress of working it out piece by piece and stage by stage. Jack has been a leader in the process of developing our knowledge and our understanding, and he has taken us with him.*[3]

It is long past time for his writings to be gathered into a book that should grace the shelf of every investment professional.