Strategic Asset Allocation: Portfolio Choice for Long-Term Investors (Clarendon Lectures in Economics)

John Y. Campbell, Luis M. Viceira
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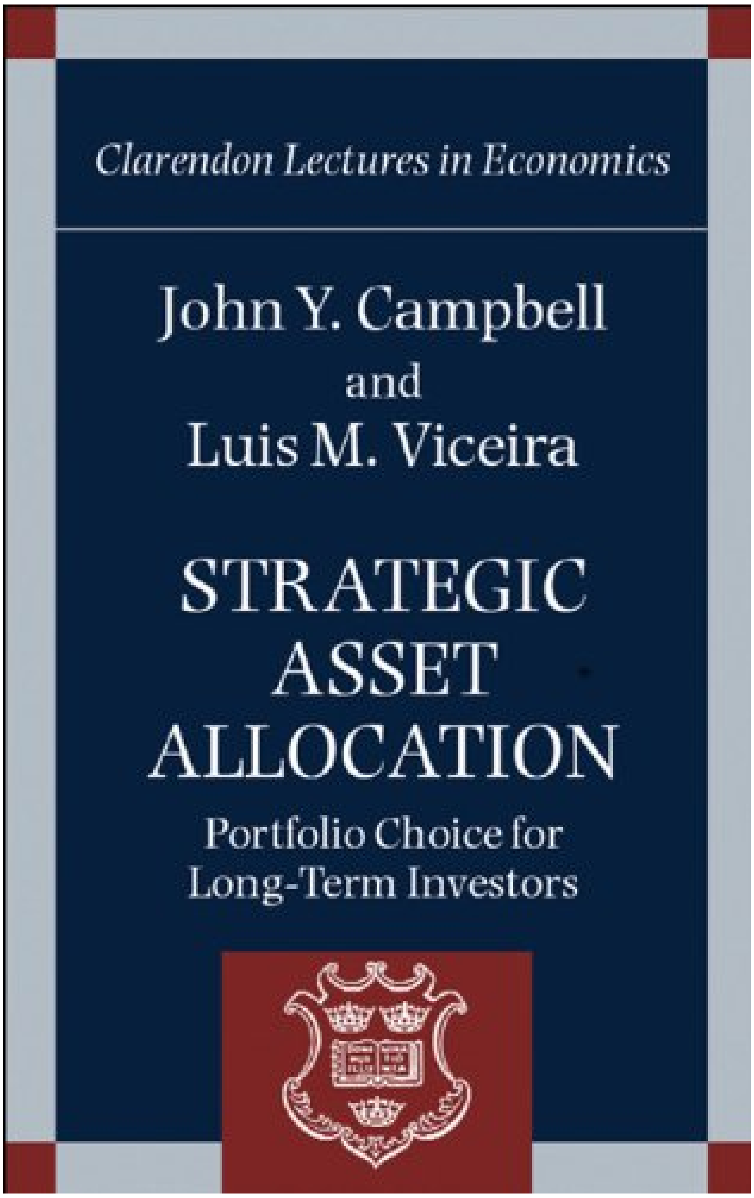

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John Y. Campbell, Luis M. Viceira : Strategic Asset Allocation: Portfolio Choice for Long-Term Investors (Clarendon Lectures in Economics) before purchasing it in order to gage whether or not it would be worth my time, and all praised Strategic Asset Allocation: Portfolio Choice for Long-Term Investors (Clarendon Lectures in Economics):

46 of 49 people found the following review helpful. Just very goodBy RatsThis book sums up recent research on the "strategic" (as opposed to "tactical", see eg Wai Lee's recent good book) asset allocation decisions - those of people wanting to design a portfolio for the very long term.I am a practitioner, but this is not a practicioners' book on many counts: some of the formalism is hard (eg chap 5 on continuous-time models), it does not include rules of thumb, its basic framework requires a lot of effort to translate into numeric advice (10% cash, 40% bonds, 50% equity or suchlike). A PFP system based on this is some way off (also because real estate is left out).Yet: (a) the book saves you a lot of time catching up with the literature; (b) it does dispel some bad criticisms of modern portfolio theory, especially in the first two chapters which are extremely useful as a reminder of basic dynamic theory; (c) it does throw in real-world considerations such as why do we advise older people to hold more conservative portfolios, what does labor income do to the basic model, why are bonds advised at all, the "asset allocation puzzle" etc.You end up your quest for knowledge much the wiser having read this - and my quest was not effortless. I read this book (actually the Web version) while on a summer vacation. Got up every morning at 7 and worked about one hour at a time, first reading, the following day taking notes. In two weeks I sweated it out. It was worth it, and I bought the book too (the physical book is much leaner than the printout).12 of 19 people found the following review helpful. Not for the average investorBy Ronald ByrdI bought this book based on a brief review in the Economist. It was way over my head. I'm a serious individual investor with training in math but found the tone of the book to be fairly esoteric and of little practical use.2 of 2 people found the following review helpful. Excellent book for those who have studied financeBy GEORGE R. FISHERI just finished a Master's degree in Finance at MIT. For me, this book was a superb review in depth of what I had studied and I was very pleased that I could follow the math and the theory as well as recognizing many of the names and works cited. Without this preparation, however, I wouldn't have gotten past the Introduction.The book addresses the very important question of what modern finance has to say about asset allocation and how this may differ from the conventional advice provided by practitioners to their clients.

Academic finance has had a remarkable impact on many financial services. Yet long-term investors have received curiously little guidance from academic financial economists.Mean-variance analysis, developed almost fifty years ago, has provided a basic paradigm for portfolio choice. This approach usefully emphasizes the ability of diversification to reduce risk, but it ignores several critically important factors. Most notably, the analysis is static; it assumes that investors care only about risks to wealth one period ahead. However, many investorsmdash;-both individuals and institutions such as charitable foundations or universitiesmdash;-seek to finance a stream ofconsumption over a long lifetime. In addition, mean-variance analysis treats financial wealth in isolation from income. Long-term investors typically receive a stream of income and use it, along with financial wealth, to support their consumption.At the theoretical level, it is well understood that the solution to a long-term portfolio choice problem can be very different from the solution to a short-term problem. Long-term investors care about intertemporal shocks to investment opportunities and labor income as well as shocks to wealth itself, and they may use financial assets to hedge their intertemporal risks. This should be important in practice because there is a great deal of empirical evidence that investment opportunitiesmdash;-bothinterest rates and risk premia on bonds and stocksmdash;-vary through time. Yet this insight has had little influence on investment practice because it is hard to solve for optimal portfolios in intertemporal models.This book seeks to develop the intertemporal approach into an empirical paradigm that can compete with the standard mean-variance analysis. The book shows that long-term inflation-indexed bonds are the riskless asset for long-term investors, it explains the conditions under which stocks are safer assets for long-term than for short-term investors, and it shows how labor income influences portfolio choice. These results shed new light on the rules of thumb used by financial planners. The bookexplains recent advances in both analytical and numerical methods, and shows how they can be used to understand the portfolio choice problems of long-term investors.

`In Strategic Asset Allocation John Campbell and Luis Viceira go beyond the usual capital-markets research monographs that survey a broad swath of asset pricing and investment theory. Instead, they dig deeply and insightfully into how an individual investor would best allocate wealth into broad asset classes over a lifetime, bearing in mind age, risk preferences, changing market conditions, and uninsurable income shocks. With this clearly written synthesis of the best recent research on the topic, much of it their own, Campbell and Viceira have achieved excellence!' Darrell Duffie, Graduate School of Business, Stanford University`At last we have a book that lays out how we should use the basic insights of mean-variance analysis to advise investors on their their lifetime portfolio problem. It is a pleasure to read when one sees such sensible and lucid application of highbrow financial theory to the most practical and important of problems. This book represents a major theoretical breakthrough that allows us to translate the principles of intertemporal financial and econometric theory into concrete advice for investing.' Robert J. Shiller, Yale UniversityAbout the AuthorJohn Y. Campbell received a BA from Oxford in 1979 and a PhD from Yale in 1984. He spent the next ten years teaching at Princeton, moving to Harvard in 1994 to become the first Otto Eckstein Professor of Applied Economics. Campbell has co-edited the American Economic and the of Economics and Statistics; he is a

Fellow of the Econometric Society and the American Academy of Arts and Sciences, and a Research Associate and former Director of the Program in Asset Pricing at the National Bureau of Economic Research. His research concerns asset markets, the macroeconomy, and the links between them. Luis M. Viceira grew up in Santa Fe, Spain, and attended undergraduate college at the Universidad Autonoma in Madrid. In 1993 he came to the United States to attend graduate school, earning a PhD from Harvard in 1998. He has been a member of the Harvard Business School faculty since 1998, where he teaches Finance in the MBA program and in the Doctoral program. He is a Faculty Research Fellow of the National Bureau of Economic Research in Cambridge (MA, USA), a Research Affiliate of the Centre for Economic Policy Research in London (UK), and an associate editor of the Spanish Economic . His research concerns investments and asset prices. Viceira is also a member of the Academic Advisory Board of ABP Investments in The Netherlands.