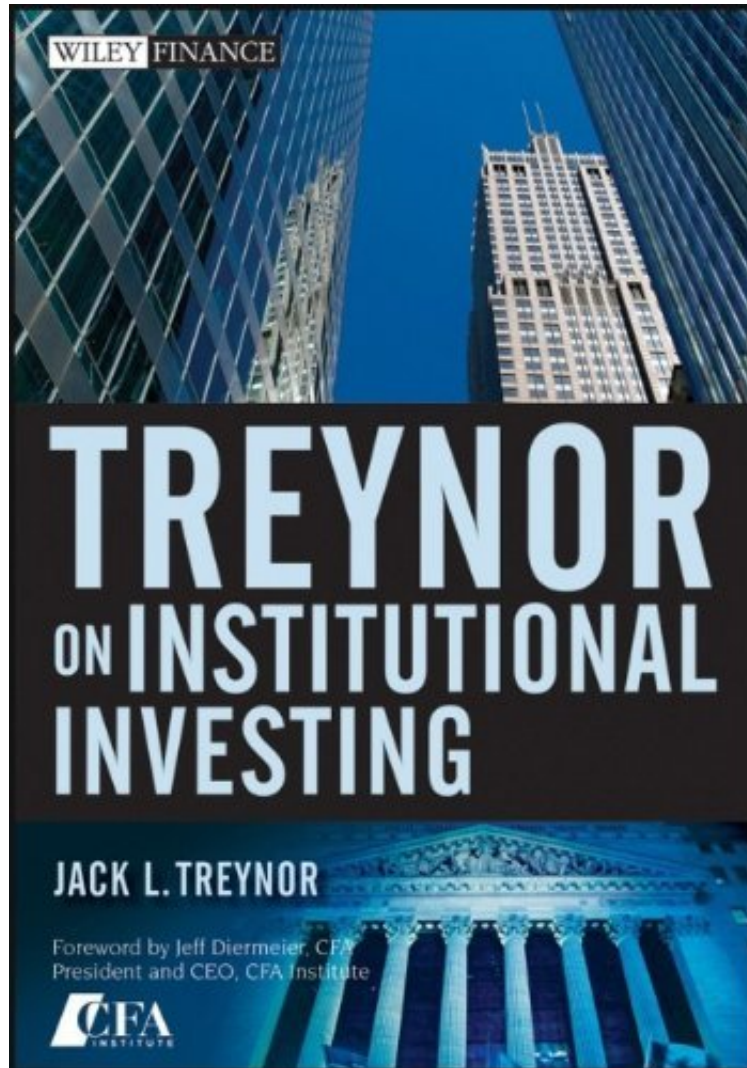


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Treynor On Institutional Investing

Jack L. Treynor

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Jack L. Treynor : Treynor On Institutional Investing before purchasing it in order to gauge whether or not it would be worth my time, and all praised Treynor On Institutional Investing:

0 of 4 people found the following review helpful. Three Stars
By Murray S. Friedland
Highly technical. More suited to the latter part of the 1900's
15 of 21 people found the following review helpful. A long overdue anthology from the
Bach of finance
By Craig W. French
Jack L. Treynor's newest text, Treynor on Institutional Investing, is destined to become the New Testament of financial economics. With an informative foreword by the President and CEO of the CFA Institute, Jeff Diermeier, as well as a preface and new section introductions by Mr. Treynor providing useful context, we now have most of Mr. Treynor's life's work assembled in this easily-accessible anthology from Wiley Finance.
Mr. Treynor, the proteacute;geacute; of Franco Modigliani and the mentor of Fischer Black, is uniquely

qualified to provide investment wisdom. Although Mr. Treynor is not well-known to the mainstream, fortunately for the investment community, his story has become more popular recently. Trained as a mathematics major at Haverford College, he completed Harvard Business School with distinction in 1955 and stayed on for a year afterwards writing cases for Professor Robert Anthony. In 1956 he coauthored a paper on capital equipment leasing. At Harvard, Treynor had been taught that the way to make long-term plant decisions was to discount the 20, 30 or 40 year stream of future benefits back to the present and compare its present value with the initial investment. Importantly, the discount rate should reflect the riskiness of the benefits. Treynor noticed, however, that when the stream of benefits lasted that long, its present value was extremely sensitive to the choice of discount rate; simply by changing the rate, a desirable project could appear undesirable, and vice-versa. Treynor resolved to try to understand the relation between risk and the discount rate, and this was the impetus for his most famous "idea in the rough", the Capital Asset Pricing Model. Treynor began working in the Operations Research department at the consulting firm Arthur D. Little in 1956. In 1958 he spent his three weeks of summer vacation in a cottage in Evergreen, Colorado, and generated 44 pages of mathematical notes on the risk problem. From then on he spent his Saturdays and Sundays working on it in his ADL office, an atmosphere conducive to productive cogitation -- quiet and virtually empty. Treynor's solution to the capital budgeting problem was that the proper discount rate is the one that the capital markets themselves utilize to discount future cash flows. This is the kernel of CAPM. By 1960 Mr. Treynor had a draft, which in its 1961 incarnation was titled "Market Value, Time, and Risk". He gave a copy to John Lintner at Harvard who was the only economist he knew even slightly, but Lintner failed to give Treynor any encouragement. One of Treynor's Chicago-trained ADL colleagues, Stephen Sobotka, sent the draft to Merton Miller. Miller and Modigliani had co-authored their great 1958 and 1961 papers while Modigliani was teaching at Northwestern. Now Modigliani was moving to MIT, and he called Treynor and invited him to lunch. Modigliani said it was clear from the draft that Treynor needed to come to MIT and study economics, to "learn the lingo". So Mr. Treynor took a one-year sabbatical from ADL to study at MIT. Since the first part of Treynor's draft dealt with the one-period problem, Modigliani suggested breaking the paper into two and naming that part "Toward a Theory of the Market Value of Risky Assets". Treynor did so, and presented the first part to the finance faculty seminar in the fall of 1962 and the second part, titled "Implications for the Theory of Finance", in the spring of 1963. Later, months after Treynor was back working at ADL, Modigliani called to tell him about William Sharpe's CAPM paper, and suggested that Treynor and Sharpe exchange drafts. "Toward a Theory of the Market Value of Risky Assets" was never published until Robert Korajczyk published an anglicized version in 1999. This pioneering paper is presented in the "Risk" section of Treynor on Institutional Investing. After Treynor's return to ADL his manager, Martin Ernst, asked him if this work had any practical applications; Treynor suggested several applications and Ernst focused on performance measurement. The result was two Harvard Business Review articles, the first, titled "How to Rate Management of Investment Funds", on measuring selection, appeared in 1965; the second (with Kay Mazuy), titled "Can Mutual Funds Outguess the Market?", on measuring timing, followed in 1966. Both of these innovative papers are included as chapters in the "Performance Measurement" section of Treynor on Institutional Investing. When Fischer Black arrived at ADL in 1965, he took an interest in Treynor's work. After Don Regan hired Treynor in 1966 to work for him at Merrill Lynch, Black inherited Treynor's ADL case work. Treynor and Black coauthored three published papers, but only one, a very clever and utile approach to active management titled "How to use Security Analysis to Improve Portfolio Selection", made its way into Treynor on Institutional Investing, in the "Active Management" section. Black also radically rethought and rewrote Treynor's second MIT presentation, publishing it, titled "Corporate Investment Decisions", as chapter 16 in Myers' 1976 compilation, Modern Developments in Financial Management. Unfortunately neither the 1963 version nor the 1976 version of this paper are included in Treynor on Institutional Investing. Mr. Treynor went on to apply his theories for practical purposes in the investment industry. He shared his wealth of knowledge with a younger generation by teaching at several universities. He served a dozen years as the editor of the Financial Analysts Journal, helping authors to present their ideas coherently and with clarity. Many of his papers over the years were published in the FAJ, some as articles and some as editorial commentary. Of the nearly 100 chapters in Treynor on Institutional Investing, two thirds of them are from the FAJ; some were originally published under his own name and others under his nom de plume, "Walter Bagehot". A substantial number of these papers won awards, including the FAJ's Graham and Dodd awards (multiple times) and the Roger F. Murray Prize. In addition, nearly one fifth of the material is from Treynor's publications in the Journal of Investment Management, where he is a Senior Editor and Advisory Board member. The book is organized in ten main sections corresponding to the areas of financial economics Mr. Treynor has studied over the years. His ruminations cover a broad swath of the investment universe, including risk, performance measurement, micro- and macroeconomics, trading, accounting, investment value, active management, pensions, and other miscellaneous papers. The book is not compiled along a "timeline", but rather along "thought lines". Although Treynor on Institutional Investing includes most of Mr. Treynor's work, it is not a perfectly comprehensive anthology. Several of the earliest known works, including Treynor and Vancil (1956), Treynor (1961), and Treynor (1963), are not included, and this is disappointing primarily from a historical perspective. Treynor and Black (1972), Treynor and Black (1976), and Treynor and Wagner (1983) are also missing from this new tome, which is also too bad although they can be

obtained with reasonable ease elsewhere. Even Teldec's "Bach 2000: The Complete Bach Edition" is not comprehensive, missing a substantial number of cantatas and lost concertos; however it is as comprehensive a compilation as one can find. Likewise, aside from several omitted gems, Treynor on Institutional Investing is a complete representation of Mr. Treynor's work on investment analysis. For financial economists and market participants, it is music for the mind; Treynor is the Bach of Finance.

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Praise for TREYNOR ON INSTITUTIONAL INVESTING "Jack Treynor has a mind of his own. I mean that as the highest compliment. Jack Treynor sees what no one else sees, thinks what no one else thinks, explains what no one else explains. You will learn more in fifteen minutes with Jack Treynor than in a full hour with most pundits. You will work hard but you will see things, think things, and understand things as never before. This book is a most valuable treasure, gleaming with Jack Treynor's brilliance." -Peter L. Bernstein, author, *Capital Ideas* Evolving "Vintage Treynor. This is a must-own reference for anyone involved in institutional asset management. It assembles - in one place - many of the important insights of one of the most provocative and creative players in the finance world over the past half-century." -Robert D. Arnott, Chairman, Research Affiliates, and Former Editor, *Financial Analysts Journal* "As a practicing investment manager, Treynor always preferred brilliance to soundness. Identifying the flaws in conventional thinking, he shows both the theorist and the practitioner where to invest time in their search for excess return." -Perry Mehrling, Professor of Economics, Barnard College, Columbia University, author, *Fischer Black and the Revolutionary Idea of Finance* "Jack Treynor's new book brings together a lifetime of exploring the important questions surrounding the sophisticated investor's task. Readers of Treynor on Institutional Investing will be richly rewarded by the insights the author has developed about both the practical and the conceptual keys to successful investing." -Samuel L. Hayes, III, Jacob Schiff Professor of Investment Banking Emeritus, Harvard Business School

From the Inside Flap Over the course of his successful career, Jack Treynor has made many important contributions to the world of investment management. Now, the innovative ideas and controversial concepts of this prolific investment professional can finally be found in one volume. Comprised of more than ninety provocative articles—many of which were originally published in well-respected industry resources such as the CFA Institute *Financial Analysts Journal* and the *Harvard Business Review*—*Treynor on Institutional Investing* clearly captures the many ways in which this man has influenced the professional investment community over a period of decades. From his seminal presentation of the Capital Asset Pricing Model in 1962 and papers introducing modern performance measurement to his revolutionary ideas on inflation, *Treynor on Institutional Investing* distills the hard-won investment insights of one of the most independent minds ever to tackle the investment problem. Along the way, this comprehensive anthology also introduces you to some of Treynor's more controversial proposals, such as issues regarding stock valuation and trading strategy, and presents challenging case studies that address critical events in today's investment environment. Treynor's work goes far beyond his well-known contributions to capital asset pricing and the performance

measurement extension. Some of the other thought-provoking topics discussed within these pages include: His challenge to conventional thinking about inflation in his new "Theory of Inflation" and "Will the Phillips Curve Cause World War III"? His groundbreaking work on market micro structure Implications of the Bean Jar Experiment for market efficiency The trouble with earnings as an appropriate focus for investment analysis The unintended effects of ERISA The articles found inside draw on Treynor's extensive experience as a management consultant, fund director, and money manager. So whether you're looking to gain a better understanding of the investment management business or prepare yourself for responsibilities on the boards of pension, endowment, or mutual funds, this book has what you need to help you succeed. One measure of how influential the ideas in Treynor on Institutional Investing have been is that they ended up shaping an ever-evolving investment profession.

From the Back Cover Praise for TREYNOR ON INSTITUTIONAL INVESTING "Jack Treynor has a mind of his own. I mean that as the highest compliment. Jack Treynor sees what no one else sees, thinks what no one else thinks, explains what no one else explains. You will learn more in fifteen minutes with Jack Treynor than in a full hour with most pundits. You will work hard but you will see things, think things, and understand things as never before. This book is a most valuable treasure, gleaming with Jack Treynor's brilliance." —Peter L. Bernstein, author, *Capital Ideas Evolving* "Vintage Treynor. This is a must-own reference for anyone involved in institutional asset management. It assembles — in one place — many of the important insights of one of the most provocative and creative players in the finance world over the past half-century." —Robert D. Arnott, Chairman, Research Affiliates, and Former Editor, *Financial Analysts Journal* "As a practicing investment manager, Treynor always preferred brilliance to soundness. Identifying the flaws in conventional thinking, he shows both the theorist and the practitioner where to invest time in their search for excess return." —Perry Mehrling, Professor of Economics, Barnard College, Columbia University, author, *Fischer Black and the Revolutionary Idea of Finance* "Jack Treynor's new book brings together a lifetime of exploring the important questions surrounding the sophisticated investor's task. Readers of Treynor on Institutional Investing will be richly rewarded by the insights the author has developed about both the practical and the conceptual keys to successful investing." —Samuel L. Hayes, III, Jacob Schiff Professor of Investment Banking Emeritus, Harvard Business School

About the Author Jack L. Treynor is President of Treynor Capital Management, Inc. He was the editor of the *Financial Analysts Journal* for many years and is the author of more than ninety articles that have appeared in numerous financial publications. Along with William Sharpe, Robert Merton, and Harry Markowitz, Treynor is a Distinguished Fellow for the Institute for Quantitative Research in Finance. He serves on the advisory boards of the *Financial Analysts Journal* and the *Journal of Investment Management*, and has taught investment courses at Columbia University and the University of Southern California. Treynor has served as a general partner, trustee, and director of seventy investment companies.