

Mr. Jahnke participated in a panel discussion "Changing Views of the Policy Portfolio".

Jahnke quoted excerpts from his preliminary paper "Death to the Policy Portfolio." He supported the opinion of Peter Bernstein to the effect that "policy portfolios are obsolete." Jahnke described the theoretical foundation of the policy portfolio as the random walk model, and said that the assumptions underlying that model are incorrect. He had written: "the policy portfolio became the dominant asset allocation paradigm in the 1990s despite rejection of the random walk model in the highest academic circles. Financial planners were comfortable with the policy portfolio. The idea of setting an asset allocation in accordance with the client's ability to sleep at night and sticking with it became dogma. It was not until the market correction that began in March of 2000 and a growing awareness in the financial planning community that historical returns can overstate what investors can expect from the stock market in the future that financial planners began to question the soundness of the policy portfolio. What financial planners should find disturbing is how easily the community was persuaded by faulty academic arguments promoted by the commercial interests of consultants."

In concluding, he had written: "In terms of forecasting asset class returns, it is still as difficult as it always has been, but making forecasts with fundamental variables provides more realistic inputs for asset allocation than extrapolation of historical risk premiums. This will lead to better investment solutions, more realistic financial plans, and more successful financial outcomes for many clients. In a world where stable equilibriums and central values are myths, the policy portfolio is a crutch for those who prefer to operate in a fantasy world. The policy portfolio is not just obsolete; it was never a valid proposition. The policy portfolio deserved to be buried."

For further information, please contact Mr. Jahnke at 925-254-9437.