Business Economics
Vol. 44, No. 4

In Memoriam

In Memoriam: Peter L. Bernstein

Thomas W. Synnott

Business Economics (2009) **44,** 187–188. doi:10.1057/be.2009.22

There are some people who we hope will go on forever, sharing their wisdom, insight, and humor. Peter Bernstein was such a person. For me and countless others, he was a friend, a mentor, and, above all, a teacher. Peter died on Friday, June 5 at the age of 90. When I read of his death the following Monday, I felt, along with the shock of the suddenness of it, a deep sense of regret that our long-running conversations about economics and investments were over.

Throughout his long and productive professional life, he brought the tools of economic analysis and a deep knowledge of economic and financial history to bear on problems of investment management. In 1973, he started a widely read bi-weekly newsletter "Economics and Portfolio Strategy"; and in 1974 he co-founded the *Journal of Portfolio Management*, with the aim of communicating the results of new academic research in finance to real world investment managers. He wrote a number of influential books on a wide range of topics, including *Capital Ideas* on the efficient market theory (1991), *Against the Gods: the Remarkable Story of Risk* (1996), and *Wedding of the Waters: The Erie Canal and the Making of a Great Nation* (2005). He also received Abramson Scrolls for contributions to *Business Economics* in 1998, 1992, and 2000. Along the way he served as an OSS officer in London in 1941, ran an investment management firm from 1951 to 1973 and found time to explain and evaluate the intricacies of modern portfolio theory to investment managers at financial institutions, foundations, and pension funds. They and we are the beneficiaries of all those meetings and speeches.

One could easily write more about his many accomplishments, but what I would like to do is to share some of the ways Peter influenced me over the years. He was a frequent guest-speaker at U.S. Trust. I believe my first meeting with him came during the Growth Stock Mania of the late 1960s. At that time, I was intrigued by and developing a growth stock valuation model. Although these efforts ran against the efficient market theory, Peter was very patient and encouraging. Indeed, like the master teacher he was, he was always interested in new ideas. From that time on, I thought of myself as one of his students in the "real world" classroom of investment management.

Over the years, as my own work turned to economic analysis and forecasting, his newsletter often focused on similar issues. We corresponded on these, and I used (with permission) a number of his letters in my classes at Williams College or Cooper Union as illustrations of how clear thinking and a knowledge of economic history could foresee such developments as the dot.com crash and our current financial crisis. Long-waves, patterns in economic history, and long-run rates of return on financial assets were all repeated topics of conversation. He also provided useful comments on my *Business Economics* article on the "Great Inflation" (April 2008).

While recently revisiting *Against the Gods*, I noted how very readable it is for a book covering such a vast subject: risk. In part, this is because Peter makes the individuals who developed our notions of probability over the ages come alive with all their genius and foibles. There is, as he points out, a chain of gamblers, mathematicians, lawyers, and economists who have brought risk and risk measurement from the games of chance of antiquity to our vitally important insurance industry and, ultimately, to complex financial derivatives. This book, an international best seller as noted by the *Wall Street Journal* (June 13–14, 2009), was published in 1996. In the last two or three years, Peter began to think and write more about risks that cannot be measured—about what Frank Knight and J.M. Keynes called *uncertainty*. Indeed, Peter himself saw the limits of probabilistic reasoning when he wrote *Against the Gods* quoting from G.K. Chesterton in his last chapter (p. 331).

> The real trouble with this world of ours is not that it is an unreasonable world, nor even that it is a reasonable one. The commonest kind of trouble is that it is nearly reasonable, but not quite. Life is not an illogicality; yet it is a trap for logicians. It looks just a little more mathematical and regular than it is; its exactitude is obvious, but its inexactitude is hidden; its wildness lies in wait.[1]

Recognizing this "wildness" in the severity of the current financial crisis, Peter has recently argued in his letters that investment portfolios need to be *hedged* against extreme events. In his view, *diversification* is a rational way to deal with *quantifiable risks* but is not enough to deal with the "wildness of uncertainty." To deal with extreme conditions, such as we experienced in the fall of 2008, requires the imagination to find, in Peter's words, "things that will explicitly go contrary to your major bets."[2]

Finally, no commentary about Peter's life and work would be complete without acknowledging the vital contribution of Barbara, his wife and helpmate of the past 37 years. So, I conclude with thanks to both Peter and Barbara Bernstein for making the profession of investment management more disciplined and ultimately more helpful to us all.

REFERENCES

Macaulay, F.R. 1938. *Movements of Interest Rates*, NBER. Reprinted by Risk Books.

[1]Peter notes that the quotation was taken from the frontispiece of Macaulay's *Movements of Interest Rates* (1938).

[2]Spring 2009 interview with Kimbrough Towles, Editor-in-Chief of U.S. Trust's *Capital Acumen* newsletter.