

The Parable of the Money Managers

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Some years ago, in a land called Indicia, revolution led to the overthrow of a socialist regime and the restoration of a system of private property. Former government enterprises were reformed as corporations, which then issued stocks and bonds. These securities were given to a central agency, which offered them for sale to individuals, pension funds, and the like (all armed with newly printed money).

Almost immediately a group of money managers came forth to assist these investors. Recalling the words of a venerated elder, uttered before the previous revolution ("Invest in Corporate Indicia"), they invited clients to give them money, with which they would buy a cross-section of all the newly issued securities. Investors considered this a reasonable idea, and soon everyone held a piece of Corporate Indicia.

Before long the money managers became bored because there was little for them to do. Soon they fell into the habit of gathering at a beachfront casino where they passed the time playing roulette, craps, and similar games, for low stakes, with their own money.

After a while, the owner of the casino suggested a new idea. He would furnish an impressive set of rooms which would be designated the Money Managers' Club. There the members could place bets with one another about the fortunes of various corporations, industries, the level of the Gross National Product, foreign trade, etc. To make the betting more exciting, the casino owner suggested that the managers use their clients' money for this purpose.

The offer was immediately accepted, and soon the money managers were betting eagerly with one another. At the end of each week, some found that they had won money for their clients, while others found that they had lost. But the losses always exceeded the gains, for a certain amount was deducted from each bet to cover the costs of the elegant surroundings in which the gambling took place.

Before long a group of professors from Indicia U. suggested that investors were not well served by the activities being conducted at the Money Managers' Club. "Why pay people to gamble with your money? Why not just hold your own piece of Corporate Indicia?" they said.

This argument seemed sensible to some of the investors, and they raised the issue with their money managers. A few capitulated, announcing that they would henceforth stay away from the casino and use their clients' money only to buy proportionate shares of all the stocks and bonds issued by corporations.

The converts, who became known as managers of Indicia funds, were initially shunned by those who continued to frequent the Money Managers' Club, but in time, grudging acceptance replaced outright hostility. The wave of puritan reform some had predicted failed to materialize, and gambling remained legal. Many managers continued to make their daily pilgrimage to the casino. But they exercised more restraint than before, placed smaller bets, and generally behaved in a manner consonant with their responsibilities. Even the members of the Lawyers' Club found it difficult to object to the small amount of gambling that still went on.

And everyone but the casino owner lived happily ever after.