Keynes: 1883-1946

- 1902-05 undergraduate, King’s Cambridge
- 1906 India Office
- 1909 Fellow, King’s
- WW1 UK Treasury
- 1919 *Economic Consequences of the Peace*
- 1923 *Tract on Monetary Reform*
- 1925 *Economic Consequences of Mr Churchill*
- 1931 MacMillan Committee
- 1936 *General Theory*
- WW2 UK Treasury, Bank of England
- 1944 Bretton Woods
Agenda

- Keynes the stock investor
- Keynes the currency trader
- Keynes the art investor
Agenda

- Keynes the stock investor
- Keynes the currency trader
- Keynes the art investor
Keynes’ bias towards equities

Asset mix of King’s College Discretionary Fund 1921-46(%)
Benefits of investing in equities

UK index including reinvested income, in real terms

Keynes anticipated a positive equity risk premium

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Keynes’ bias towards value stocks

King’s College dividend yield relative to UK equity index (%)

Keynes favoured high-yielding, value stocks

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## How did Keynes perform?

### Kings’ College Annual total returns Sep 1921-Aug 1946

<table>
<thead>
<tr>
<th>%</th>
<th>Discretionary Fund</th>
<th>UK Equity Index</th>
<th>UK Govt Bond Index</th>
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</thead>
<tbody>
<tr>
<td>Mean</td>
<td>16.0</td>
<td>10.4</td>
<td>7.1</td>
</tr>
<tr>
<td>Std Dev</td>
<td>19.1</td>
<td>17.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>0.7</td>
<td>0.5</td>
<td>0.6</td>
</tr>
</tbody>
</table>

- **alpha** 7.7%
- **tracking error** 13.9%
**Futility of market timing**

**Keynes in 1924:**
“Profits can be made by changing from one asset class to another at appropriate phases of the credit cycle”

**Keynes in 1938:**
“We have not proved able to take much advantage of a general systematic movement out of and into ordinary shares…at different phases of the trade cycle... Most of those who attempt to sell [do so] too late and buy too late, and do both too often, incurring heavy expenses”
Keynes switched to bottom-up stock picking

Decline in portfolio turnover as he became a more patient investor

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Some lessons from Keynes on stock investing

- Equities earn a risk premium for the long term investor
- Market timing is very difficult
- Value and Size factors
- Challenges of being unconventional and contrarian
“Worldly wisdom teaches it is better for reputation to fail conventionally than to succeed unconventionally”

“(Investors) are concerned not with what an investment is really worth to a man who buys it ‘for keeps’ but what the market will value it at under the influence of mass psychology”
Keynes and Long Horizon Investing

David Swensen, Yale CIO and author of *Pioneering Portfolio Management.*
Agenda

- Keynes the stock investor
- Keynes the currency trader
- Keynes the art investor
Keynes’ FX strategy

▪ followed a discretionary fundamentals-based approach
  close monitoring of trade, capital flows, inflation, interest rates, central bank intervention and politics

▪ well-connected but no evidence of private information

  “Taking a slightly longer view, I should expect the dollar to appreciate in terms of sterling rather than otherwise”

  16 March 1933
Keynes’ cumulative FX trading P&L (in £)

© Accominotti and Chambers (2016)
Keynes’ FRF position in 1930s (£)

© Accominotti and Chambers (2016)
Some lessons from Keynes on currency trading

- timing currency moves is very challenging

“Nothing is more rash than a forecast with regard to dates on this matter. The event when it comes will come suddenly. The best thing is to allow for probability and put little trust in forecasts of the date, whether soon or late”

(Dec-1934 on prospective FFR and DFL devaluations)

- traders experience “limits to arbitrage” due to lack of conviction or capital or both

“Markets can remain irrational longer than you can remain solvent”

(attributed to Keynes)
Agenda

- Keynes the stock investor
- Keynes the currency trader
- **Keynes the art investor**
Keynes and the Degas Sale 1918

Paul Cezanne *Still Life with Apples* c1878
Two of his big purchases

Georges Braque *Cubist design* c1911

Georges Seurat *Study for La Grande Jatte* 1884–5
Keynes also viewed art as an investment

“All these pictures were bought cheaply and there is no doubt that Keynes, much as he came to love his pictures, was also motivated in his purchases by his idea of art as an investment. On several occasions he was open to offers both for the Seurat and for one of the two Picassos.”
Value of Keynes collection over time, nominal GBP

The art portfolio fully matched the equity market (with dividends reinvested)

© Chambers Dimson and Spaenjers (2017)
The Keynes art portfolio is highly concentrated

Cumulative % of total value

Items in the Keynes collection ranked by estimated value as at end-2013

© Chambers Dimson and Spaenjers (2017)
Returns were driven by a few rare winners

© Chambers Dimson and Spaenjers (2017)
Some lessons from Keynes on art investing

- Art portfolios also have a “style tilt”
- Portfolio concentration is the norm in art portfolios
- Returns are heavily skewed, like private equity
Articles on Keynes

- **Stocks**

- **Currencies**

- **Art**
  “Art as an Asset: Evidence from Keynes the Collector” (with Christophe Spaenjers and Elroy Dimson) SSRN working paper.

- **Long-term investing**