What do investors want?

by

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August 2004

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Abstract

Diners want more than the utilitarian benefits of low cost and high nutrition when they choose restaurants, they want the utilitarian benefits of palatability, ambiance and conformity to culture. And they also want the expressive benefits of status, patriotism and social responsibility. Similarly, investors want more than the utilitarian benefits of low risk and high expected returns when they choose investments, they want additional utilitarian benefits and they want expressive benefits as well.

Restaurant journals discuss both the utilitarian benefits of restaurants and their expressive ones, but finance journals are confined to the utilitarian benefits of low risk and high expected returns. I hope that the expressive benefits of investments would be discussed in future issues of finance journals and offer in this article some thoughts about the future of the investment profession and its business.

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Charles Ellis learned about differences between appearance and reality from his father at Chateau Chambord, a very special French restaurant. The reality of restaurants, said Ellis' father, is that profits come from cocktails and wine, not from food. And the reality of investments, wrote Ellis, is "that the best way to achieve long-term success is not in stock picking and not in market timing and not even in changing portfolio strategy…. The great pathway to long-term success comes via sound, sustained investment policy." (1988, p. 25)

One lesson from restaurants, taught by Ellis' father, is that the appearance of the sources of profits is different from the reality. But restaurants teach another lesson, that the appearance of benefits is different from the reality. Investments, like restaurants, offer both utilitarian and expressive benefits. Diners want more than the utilitarian benefits of low cost and high nutrition when they choose restaurants, they want the utilitarian benefits of palatability, ambiance and conformity to culture. And they also want the expressive benefits of status, patriotism and social responsibility. Similarly, investors want more than the utilitarian benefits of low risk and high expected returns when they choose investments, they want additional utilitarian benefits and they want expressive benefits as well.

Expressive characteristics in products and services let us identify our values, our social class and our lifestyle, and convey them to ourselves and to others. Expressive characteristics also add meaning to products and services beyond utilitarian characteristics. Hard-earned money is different from windfall money, Johnny's college money is different from vacation money and dividend money is different from capital money. Anyone who has ever bought a bottle of wine at a very special French restaurant knows that wine is more than a utilitarian beverage and anyone who has ever bought a car at a showroom knows that a car is more than utilitarian transportation.

"I see us as being in the art business," said an automobile executive. "Art, entertainment and mobile sculpture, which, coincidentally, also happens to provide transportation." (New York Times, 2002)

Much of the distinction between rationality and irrationality in the investment context is a distinction between utilitarian and expressive characteristics. Investment practitioners and academics are reluctant to acknowledge preferences for the expressive benefits of investment products and services, perhaps because they consider such preferences irrational or perhaps because catering to such preferences might violate fiduciary responsibilities. Low risk and high expected return are utilitarian benefits and those who restrict their attention to them are considered rational. But the rubric of rationality is not extended as easily to other benefits, such as the display of status. Yet, they are important. "Why does she like logos?" asked Rozhon (2002), "'It's a status thing, a class thing,' Ms. Smith replied. 'They make you feel better about yourself, and put you in a different class.'" (p. A1)

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Utilitarian and Expressive

Restaurants offer nutrition to those who cannot cook at home or do not wish to. But why do we pay $160 for dinners at Alain Ducasse, a very special French restaurant, when equally nutritious meals are available at neighborhood restaurants for $20? Shriver (2000) described a meal at Alain Ducasse.

> The fixed-price menu is $160 at lunch and dinner, with special menus at higher prices. Add the cost of a bottle of wine from the world-class cellar, and the tab will be among the most expensive in the country.
>
> Customers will be entertained in three dazzling Art Deco dining areas, where natural light will play off marble columns, dark wood panels and plush fabrics of gold, red and cream
>
> "I'm tired of the minimalist look," says Ducasse. (p. D1)

Private banking, like four-star dining, offers utilitarian benefits not available in mass banking, such as handling of complex transactions across many continents. But it also offers expressive benefits, such as a display of status. Egan (2000) noted the similarity between private banking and four-star restaurant dining.

> Ah, the sweet allure of privilege. The burnished mahogany paneling. The exquisite Oriental carpets. The poised and well-tailored attendant who hangs on your every utterance. The whole scene from a private banker's chambers is reminiscent of a four-star restaurant. (p. 248)

Investment managers, like cooks, must know what investors want if they are to serve them right, wrote The Literary Digest (1928). "Welsh rarebit is a nourishing food, but you would hardly feed it to an infant. Neither would you serve spinach as a dessert course for a banquet. Yet two securities, each of which is legitimately described as 'sound,' may be as different in their usefulness as these two articles of food. You can not begin selecting till you know the use to which they are to be put." (p. 72)

Fisher and Statman (1997) offered the analogy between investments and food as an illustration of the difference between Markowitz's (1952) mean-variance portfolio theory and

Shefrin and Statman's (2000) behavioral portfolio theory. Food is considered from the perspective of the stomach in mean-variance portfolio theory while it is also considered from the perspective of the palate in behavioral portfolio theory. Food is no more than proteins, vitamins and other utilitarian nutrients to the stomach but food can be a delicious feast when it is palatable, varied, prestigious and conforming to culture. Mean-variance investors consider their portfolios as a whole, knowing that all food mixes in the stomach, but behavioral investors place securities into of distinct layers of pyramid portfolios, just as they place food into distinct layers of a menu. Bonds fit into downside protection layers and aggressive growth stocks fit into upside potential layers just as Welsh rarebit fits into the snack layer of a menu and spinach fits into the salad layer.

Anyone who has ever tried a mean-variance optimizer knows that optimal mean-variance portfolios offer the investment equivalent of Welsh rarebit to infants and spinach for dessert. Mean-variance efficient portfolios invariably include 'too much' of some assets, such as foreign stocks, and 'too little' of others, such as bonds. Investors use constraints, such as 'no more than 10% in foreign stocks,' or 'no less than 40% in bonds' to make portfolios palatable, varied, prestigious and conforming to culture. In the end, mean-variance optimization is a mere prop.

What do optimized mean-variance food portfolios look like? Stigler (1945) considered 77 foods, from wheat flour to sirloin steak and strawberry preserves. Each food item has a set of nutrients and a cost. The optimized portfolio consisted of only 5 food items out of 77. A moderately active man weighing 154 pounds would have satisfied all his nutritional requirements at an annual cost of $39.93. The food portfolio consisted of 370 pounds of wheat flour, 57 cans of evaporated milk, 11 pounds of cabbage, 23 pounds of spinach, and 285 pounds of dried navy beans. Are you ready for life with this optimized food portfolio?

Stigler compared his food portfolio to the portfolio that dietitians described as the one that offers the necessary nutrition at the lowest cost. The dieticians' food portfolio would have cost $100, more than double the cost of Stigler's food portfolio because they took into consideration not only the utilitarian benefits of low cost and high nutrition but also the utilitarian benefits of palatability and variety, and the expressive benefits of prestige and culture. Stigler did not object to diets that contain meat, sugar and other palatable ingredients; he objected only to attempts to present palatable, varied, prestigious and cultural diets in the guise of minimum cost diets. Similarly, Fisher and Statman objected to attempts to massage the parameters of securities so as to present palatable, varied, prestigious and cultural investment portfolios in the guise of mean-variance-efficient portfolios.

Status

"[W]hy should the ability to get a reservation tonight at the exclusive Per Se restaurant instead of Red Lobster … prolong one's life?" asks Cohen (2004). The answer is in the psychological effects of status. The wealthy stand high in the hierarchy of status so they can afford meals at Per Se while the less wealthy can climb no higher than Red Lobster. "Your position in the hierarchy very much relates to how much control you have over your life and your opportunities for full social engagement," wrote Cohen.

The Whitehall study of the health of thousands of British civil servants since 1967 revealed that those in the lowest grade are three times more likely to die at any given age as those in the highest. Little of the difference in the longevity is explained by health habits. Cohen quoted Michael Marmot, the former director of the Whitehall study saying that "A nonsmoker who is lower grade has a higher risk of heart disease than a smoker who is higher grade."

Money does buy happiness. Investors pursue high returns because high returns bring wealth, wealth brings status and status brings happiness. Gardner and Oswald (2003) found that lottery winners were happier in the year following their windfall than in the previous year. But the effects of increases in wealth on happiness fade. Hilsenrath (2002) quotes Kahneman, saying that "individuals often find themselves on a so-called satisfaction treadmill. The more they earn, the more they can indulge themselves, and the more they want." (p. A7). Increases in wealth do not increase happiness for long, and the average level of happiness in a country ceases to increase once average wealth reaches moderate levels. So the average level of happiness in the US was no higher in 1998 than in 1975 despite significant increases in average wealth. But high status within a society continues to bring high happiness. Layard (2003) reported that 39% of Americans in the top quartile of income were very happy in 1975 but only 19% of those in the bottom quartile were as happy. Only 37% of Americans in the top quartile were very happy in 1998 but only 16% of Americans in the bottom quartile were as happy.

Wealth brings status but status takes more than wealth. Vineyards confer status. "Simply being rich is no longer enough." wrote Conaway (2001). "One must be legitimate as well, a form of acceptance that goes beyond financial success and involves the great imponderables of taste and inner worth. Owning a vineyard, and from there having one's name on a wine label, is an honored way in Northern California of accomplishing this, of wiping out the less genteel aspects of capital accumulation. The best wine grape, *Vitis vinifera*, can figuratively settle upon shoulders more accustomed to Oxford cloth, sometimes with pocket protectors still attached, the mantle of a thousand years of European culture. Likewise, a label now serves as a 21st century coat of arms, lovingly conceived, expensively designed, suggesting that though the owner made

a fortune in IPOs, microchips, or starter mansions, his real sympathy belongs with the land, and his soul to the ages." (p. 128).

Restaurants, like vineyards, confer status. "[T]he man outside was a necessary part of restaurant life," wrote Spang (2000). "For the nineteenth century's restaurant fantasy implicitly required the presence of somebody outside; some poor devil with his nose pressed to the window, some plotting parasite endeavoring to get a free dinner chez Very…" (p.245) More recently, the New York Times (2004) wrote about six-egg frittatas with caviar offered at Norma's restaurant for $1,000. "The restaurant staff rings a cowbell when the egg dish is served, lest other diners miss the event." (p. A26). Some investments are like dinners at Red Lobster while others are like dinners at Per Se. Mutual funds and public equities are as pedestrian as Red Lobster, available to the middle class and conveying little status. But hedge funds and private equities are as sophisticated as Per Se, available only to the wealthy and conveying high status.

While wealth confers status and increases happiness, risk reduces it. But the risk that investors fear is loss of wealth and decline in status, not variance of returns. Robert Sapolsky, a biologist and neurologist, found that high status baboons have the best physiology but high status baboons in threatened positions have the worst physiology. Cohen (2004) quoted Sapolsky "I would not have wanted to have been the czar of Russia in the winter of 1917. You don't want to be on top of a hierarchy if everybody's trying to burn down the castle." Similarly, Conaway (2003) described the battle for status among winery owners. "What was really going on was a large contest of wills among people accustomed to getting what they want... The argument was not about grapevines, profit, peri-urban aesthetics, or the need for yet another cult cabernet but about the importance of winning." (p. 132)

“When Your Brother is Your Benchmark is the title of Spragins (2003) article about status competition among siblings. “Urged by their father to make a lot of money when they grew up, their grades and sports performances were constantly compared, recalled one sibling, a 44-year-old lawyer who lives in California. He had been among the wealthier siblings in his 30’s but found his savings and assets wiped out by a protracted divorce several years ago. He hid the fact, he said, by meeting visiting siblings in restraints and disclosing nothing. ‘When I was poor, I made sure nobody ever saw that,’” (p. BU10)

Advances in finance equip us with better benchmarks and more accurate measures of investment performance. Ironically, that accuracy also make it easy to distinguish winners from losers, facilitating competition for status and lowering overall happiness.

Patriotism

We express our patriotism in our food and in our investments as well. Frankfurters were turned into hot dogs when Americans fought Germans in World War I and French fries were briefly turned into Freedom fries by Americans unhappy with the opposition of the French to the war in Iraq. Likewise, Liberty bonds conveyed patriotism in World War I and ‘Patriot Bonds’ conveyed patriotism after the September 11, 2001 terrorist attacks.

World War II “was assigned the transcendent objectives of ‘the Good War’: an opportunity to defeat fascism, defend and renew the faith in American democracy, restore the American economy, and reap the benefits of a new and improved consumer ethic,” wrote Samuel (1997, p. xxi-xv), and Americans expressed their patriotism with war bonds. “World War II bonds represented the most tangible evidence of Americans’ financial and moral stake in the war, the principal means by which those on the home front could take part in the war effort.” (p. xiv)

The Cold War followed World War II and Keith Funston, the Chairman of the New York Stock Exchange, urged Americans to defend capitalism from communism by buying stocks. Starley (1955) quoted Funston: "A nation of share owners is our strongest defense against the foreign 'isms' that would sap our vitality and eventually turn us over the evil enemy we know as communism. We can preach the virtues of capitalism until we are blue in the face, but one stock certificate in the name of Joe Public is a stronger argument than all the oratory of which we are capable." (p. 123)

Investors who concentrate their holdings in their home country or home county gain the expressive benefit of patriotism but lose the utilitarian benefits of high returns and low risk that come to those who venture farther. Financial advisors warn investors against mixing patriotism with investments. "Common sense dictates spending your money where you make it," wrote The Literary Digest (1930), "but it is foolish to let any sense or urge of civic obligation make you invest in local enterprises whose real financial status you can seldom ever find out until a receiver is appointed." (p.43) More recently, Frederick (2001) warned investors against 'patriot rallies' to prop up the stock market after September 11, 2001. "The attacks of Sept. 11 were an assault on the pillars of American life, including capitalism and the free-market system. The truest sign that the free market has prevailed will be when we stop letting flag-waving emotion affect our investing decisions. There are plenty of places where patriotic displays are appropriate, even necessary. The stock market isn't one of them." (p. 31)

Still, Morse and Shire (2003) found that patriotism continues to affect investment behavior. They gauged patriotism by answers to the question "How proud are you to be [substitute nationality]? and found that investors in more patriotic countries and investors in

more patriotic regions within the U.S. hold smaller proportions of foreign stocks in their portfolios.

Social responsibility

Some diners insist on eating only meat of livestock that roamed free before they were slaughtered. Other diners forego meat altogether. Diners seek to align their diets with their values. The same is true for investors. Socially responsible investors usually shun stocks of companies that conduct tests on animals and favor stocks of companies that protect the environment.

People who care about the environment signal their social responsibility to the people around them when they drive Toyota Prius hybrid cars. Socially responsible portfolios, unlike hybrid cars, are private so they offer little benefit in signaling social responsibility to other people. But socially responsible portfolios offer great self-signaling benefits, where investors signal their social responsibility to themselves. Quattrone and Tversky (1984) demonstrated the importance of self-signalling. Quattrone and Tversky asked subjects to place an arm in a container of cold water until they could no longer tolerate the pain. Subsequently, they told subjects that recent medical studies have discovered an inborn, incurable heart disease in some people that makes them prone to illness and early death. Subjects were told that this bad heart condition can be identified by the ability to withstand cold water after exercise and were divided into two groups, one was told that the bad heart condition is associated with an increase in tolerance to cold water after exercise and the other was told that the condition is associated with a decrease in tolerance to cold water after exercise. Quattrone and Tversky found that most subjects showed changes in tolerance to cold water in the direction associated with 'good news.' Those who were told that the bad heart condition is associated with low tolerance to cold water

kept their arm in the water longer than those who were told that the bad heart condition is associated with high tolerance to cold water. So people are willing to subject themselves to the pain of cold water to signal to themselves that they do not have a bad heart condition.

Investors vary in their causes, but they are passionate about them. MainiacJoe (2002) emphasized religiously conservative causes on the Yahoo SRI message board:

> The ethical concerns I have are of religiously conservative nature more than a socially progressive nature. As such, in addition to the typical achohol, gambling and tobacco screens I am more concerned about investing in companies that are involved with abortion and pornography than those associated with nuclear power or military technology. By these guidelines the common social funds such as Domini and Calvert are indistinguishable from a broad index fund.

But marionvb (2002) responded with an emphasis on a clean environment:

> I personally am more concerned about not being able to breathe the air than whether or not someone else has an abortion.

Socially responsible investors care about their causes but they also care about the returns on their portfolios. A Yankelovich survey reported that 80 percent of investors would not consider investing in socially responsible mutual funds unless their returns were at least equal to those of conventional mutual funds (Krumsiek, 1997). Statman (2000) found that socially responsible investors do not sacrifice returns for social responsibility. The returns of the Domini Index of socially responsible companies were better than those of the S&P 500 Index and the

returns of socially responsible mutual funds were better, on average, than the returns of conventional mutual funds.

Fairness

"Fine restaurants gouge consumers, as evidenced by wine prices that are multiples of the going retail rate," is a common perception among diners, wrote Bolton et al (2003) in "Consumer Perceptions of Price and (Un)fairness." Children learn that restaurants make their profits on wine, as Ellis learned from his father, but adults know it and consider restaurants unfair.

Consumers do not object to profitable restaurants and other businesses, but they object to unfair profits. Consumers judge the fairness of prices and profits by reference points. For example, increases in menu prices due to increases in the cost of food or labor are considered fair while increases in prices in the absence of such increases are considered unfair. But how much profit do restaurants and other businesses make? Consumers can calculate profits when prices are set by cost-plus rules, but in most cases they are left guessing. Profit estimates bring grief to both businesses and consumers. Bolton et al found that consumers tend to underestimate costs and overestimate profits, generating a sense of unfairness.

I have $500,000 in my portfolio, says an investor. I don't mind paying a fee for the management of stocks. Stocks are complicated, and their management is costly. But the management of bonds is easy, and cash needs no management at all. Why am I paying you a fee for these? The frequency of such questions indicates that financial advisors find it difficult to explain to clients the fairness of their fees. Financial advisors respond by emphasizing their beat-the-market services and de-emphasizing their advising services even though, in truth, the benefits of financial advisors are mostly in advising.

Investors want more than fair fees, they want to play on level playing fields in fair markets. The quest for fairness underlies Regulation Fair Disclosure (FD) that mandates equal access to corporate information and that quest underlies the resentment of small investors toward investment professionals. Following the settlement where brokerage firms paid $1.4 billion in penalties for analyst reports biased to help investment bankers, Blouster (2002) wrote to the editor of the New York Times, "For way too long, Wall Street has regarded the small investor as a lamb to be fleeced and skinned. I am one of those lambs, and it bothers me no end that there are no indictments; that the $1.4 billion penalty does not approximate the gains that were realized by the firms' misleading conduct; and that the fine can be thought of as just another cost of doing business." (A20).

The future

A few years ago, the board of a pension fund was debating a motion to divest the stocks of tobacco companies. On one side were those who argued that divesting tobacco stocks breaches the fiduciary duties of the fund to its beneficiaries since divestment reduces diversification and increases risk without a commensurate increase in expected returns. On the other side were those who argued that they are the ones who uphold the fiduciary duties of the fund because tobacco companies are most likely to go bankrupt, reducing returns.

The debate was odd. Board members who opposed divestment in the name of diversification overlooked the fact that the fund's existing portfolio was not fully diversified. Large portions of the fund's assets were in the hands of money managers who concentrate their holdings in particular stocks or industries, reducing diversification. Moreover, they overlooked evidence that, on average, money managers are likely to diminish expected returns rather than to enhance them.

Proponents of divestment cited evidence that socially responsible investing, including divestment of the stocks of tobacco companies, does not reduce expected returns and possibly enhances them, but their real objection to the stocks of tobacco companies was social, not financial. They wanted to foster a society free of tobacco and its ills.

As things stand today, the framework of risk and expected returns gives board members and other fiduciaries safe harbor as long as they pursue high expected returns and low risk. So they bear no blame when their pursuit of high expected returns yields low realized returns. But shouldn't they bear blame for low realized returns when the evidence indicates that active managers are likely to lag passive indices? And why should board members be denied safe harbor to pursue social goals, such as a tobacco-free world, when the evidence indicates that such pursuits did not reduce realized returns?

I hope that in the future we might resume the debate about fiduciary duties and safe harbors. In particular, I hope that we would recognize that beneficiaries care about goals beyond risk and expected returns, such as social responsibility, and that fiduciaries exercise their fiduciary duties by working to satisfy all the goals of their beneficiaries. Perhaps we should continue to commingle the assets of beneficiaries in pension funds and choose goals by vote of the beneficiaries. Or perhaps we should do away with commingled assets, letting beneficiaries follow their individual goals. TIAA-CREF offers a model for the latter. Beneficiaries who focus on risk and expected returns can choose a broad index fund while beneficiaries who want a socially responsible fund can opt for such a fund.

More recently the board of a pension fund was debating asset allocation in their portfolio. The ostensible framework of the discussion was mean-variance portfolio theory where carefully estimated expected returns, standard deviations and correlations are fed into a mean-variance

optimizer that spits out asset allocations on the mean-variance efficient frontier. But the optimizer is no more than a prop. The important asset allocation choices are made through constraints before the optimizer is allowed to do its work. The optimizer was instructed to obey constraints such as 'no more than 5% in alternative investments' or 'no less than 30% in bonds,' leaving to the optimizer the small choices, say the choice between a 60% allocation to stocks and a 65% allocation. The true but unspoken framework for the discussion was behavioral portfolio theory where portfolios are layered pyramids ranging from a bottom downside protection layer to a top upside potential layer.

Investors in behavioral portfolio theory are risk-averse when they consider assets for the downside protection layers, choosing insurance policies, bonds and similar assets, while they are less risk-averse, even risk-seeking, in the upside potential layers, choosing lottery tickets and their investment equivalents. This is, in essence, the framework that Sharpe (1986) described. The line between downside protection and upside potential in Sharpe's commentary is at the 100% funding ratio. He wrote that "the pension committee becomes very tolerant of risk when the plan is overfunded but very intolerant when the plan is underfunded...Typical statements might be: 'We've dropped below 100 percent; we'd better get some Treasury bills and lock in at least some of what we've got left,' or 'We're well funded; let's put all our money in stocks – we can afford the risk.'" (p. 45)

I hope that in the future pension funds and other institutional investors would bring to an end the charade where they pretend to use mean-variance portfolio theory while they use behavioral portfolio theory. There are many benefits in framing portfolio choices explicitly within behavioral portfolio theory. For example, the portfolio could be divided into two layers, one for asset that provide assurance of 100% funding and another that offers hope to rise above

100% funding. The discussion of each layer can take into account the goals of each layer and their right balance between risk and expected returns.

Financial advisors guide individual investors as members of boards guide pension funds and they, and their investors, would benefit too when they switch explicitly from mean-variance portfolio theory to behavioral portfolio theory. Financial advisors who aim to help investors must know all their goals of investors, beyond low risk and high expected returns. Some investors prefer to avoid foreign stocks even if mean-variance optimization indicates that they belong in optimal portfolios. Other investors prefer hedge funds because such funds convey high status.

Financial advisors already construct portfolios that deviate from mean-variance optimized portfolios but satisfy the goals of investors. For example, they let investors decide if they want foreign stocks in their portfolios and let investors have a “mad money” account that serves as an upside potential lottery ticket. I hope that in the future we might discuss these portfolios forthrightly and use behavioral tools, such as temperament questionnaires, to gain insight into their investors, elicit their goals and design the right portfolios for them.

Fairness in today’s market for financial products and services resembles fairness in the market for automobiles. Customers feel cheated and salespeople know how customers feel. There are good reasons for these feelings. The vendor of “The Income and Wealth Leverage Plan” offers financial advisors a plan to invest $700,000 of clients’ money and get a little something for themselves. “One appointment, three sales and $52,316 in commissions… More importantly, a solution your senior clients need.” But senior clients are told nothing about commissions. A note at the bottom of the brochure says “For agent use only. Not for use with the public.”

Clients themselves are no fairer in the financial market than they are in the automobile market. Clients of financial advisors expect free financial advice along with market beating returns and clients of money managers expect other people to pay for the research necessary to manage their money.

I hope that in the future we would have more transparent fee structures and education drives that would teach investors that they cannot expect to receive everything for nothing. A move from today's world to the future world would not be easy but the car market shows that way. Many of today's car buyers forego showroom dickering for price searches on the Internet. They choose dealers who offer the best prices and avoid the common showroom sales tricks where salespeople pretend that they are going to consult with their managers.

Today's money managers say that they compete with other money managers by generating the highest alphas. They denigrate the role of marketing in the competition. Yet each money manager has ready stories about other money managers with low alphas who snatched clients through clever marketing. Money managers, security designers and all other investment professionals practice marketing as they seek to understand investor needs, utilitarian and expressive, and satisfy them. Yet investment professionals are reluctant to discus marketing and few articles link marketing to the investment profession. I hope that in the future the link between investment and marketing would become stronger and more explicit.

Last, I hope that in the future we would have models of expected returns that recognize the role of all investment features, both utilitarian and expressive, not only risk. We have moved from the CAPM where beta measures risk to the 3-factor model where size and book-to-market measure risk. But size and book-to-market probably measure affect, an expressive feature, rather than risk. The relationship between size, book-to-market and returns likely reflects the

preference of investors for admired companies with positive affect over despised companies. Other utilitarian and expressive characteristics, such as social responsibility, status and patriotism should have place in the model.

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