The Journal of Investment Management and New Frontier Institute
2020 Harry M. Markowitz Award Winners

Top Honor Goes to Israel, Kelly, and Moskowitz for "Can Machines 'Learn' Finance?"

Lafayette, CA—February 25, 2021—The *Journal Of Investment Management* (JOIM) and New Frontier Institute announced today the winners of the 2020 Harry M. Markowitz Award. The winners are finalized by a Special Selection Panel comprised of Nobel Prize Laureates.

The Markowitz Award is sponsored jointly by JOIM and New Frontier Institute and recognizes the seminal and transcendent impact of Dr. Markowitz's work as a financial economist and mathematician in both theoretical finance and the practice of asset management. The award was established to honor his legacy and to support future research and innovation in practical asset management. Candidates for the annual award are chosen from papers published in JOIM in a calendar year. An honorarium of $10,000 is bestowed for the winning paper. Two additional finalist papers receive a Special Distinction Award along with a $5,000 honorarium.

2020 Markowitz Award Winners

This year's top recognition was awarded to "***Can Machines "Learn" Finance***?" by Ronen Israel, Principal at AQR Capital Management, LLC, Bryan Kelly, Head of Machine Learning, AQR Capital Management, LLC and Professor of Finance, Yale University, and Tobias Moskowitz, Principal at AQR Capital Management, LLC , Professor of Finance and Economics, Yale University, and Research Associate, NBER.

The winning paper examines the topic of machine learning for asset management with a unique set of challenges that differ markedly from other domains where machine learning has excelled. Understanding these differences is critical for developing impactful approaches and realistic expectations for machine learning in asset management. The authors discuss a variety of beneficial use cases and potential pitfalls, and emphasize the importance of economic theory and human expertise for achieving success through financial machine learning.

Special Distinction Awards

In addition, two 2020 Special Distinction Awards were given for the following papers:

1) Measuring Risk Preferences and Asset-Allocation Decisions: A Global Survey Analysis by Andrew W. Lo, The Charles E. and Susan T. Harris Professor, MIT Sloan School of Management, and Director of the MIT Laboratory for Financial Engineering, Alexander Remorov, MIT Sloan School of Management, and Zied Ben Chaouch, PhD student at MIT's Electrical Engineering and Computer Science (EECS)/Department Laboratory for Financial Engineering (LFE).

In this paper, the authors used a global survey of over 22,400 individual investors, 4,892 financial advisors, and 2,060 institutional investors between 2015 and 2017 to elicit their asset allocation behavior and risk preferences. They find substantially different behavior among these three groups of market participants. Most institutional investors exhibit highly contrarian reactions to past returns in their equity allocations. Financial advisors are also mostly contrarian; a few of them demonstrate passive behavior. However, individual investors tend to extrapolate past performance. The authors use a clustering algorithm to partition individuals into five distinct types: passive investors, risk avoiders, extrapolators, contrarians, and optimistic investors. Across demographic categories, older investors tend to be more passive and risk averse.

2) A Six-Component Integrated Approach to Addressing the Retirement Funding Challenge by Robert C. Merton, Nobel Laureate in Economics, Distinguished Professor of Finance at MIT Sloan School of Management, and The John and Natty McArthur University Professor Emeritus at Harvard University, and Arun Muralidhar, Co-Founder, AlphaEngine Global Investment Solutions LLC/M-cube Investment Technologies.

This paper offers an integrated approach to addressing the global retirement funding challenge, especially in light of the coronavirus shock that has created an unanticipated and unprecedented impact on lifetime income/ consumption. It frames the problem in a six-component approach to the funding challenge with an integrated package presented in a transparent, detailed modular fashion, so that any one module can be replaced with a different version and the rest of the system works. This also means that all six components need not be employed simultaneously, but can be done in a secular fashion. Finally, it develops and proposes in detail a new financial instrument, SeLFIES (Standard-of-Living indexed, Forward-starting, Income-only Securities)—a single financial innovation that provides greatly improved efficiency of implementation to four of the six components. SeLFIES can help complete financial markets and could be a timely innovation given the coronavirus crisis because they are beneficial to governments that seek long-term, local currency debt financing.

 "We are pleased to recognize the outstanding work of the 2020 Award Winners who exhibit the influence of Harry Markowitz and honor his work in the financial community," said Dr. Richard Michaud, Founder of New Frontier Institute, and President and Chief Executive Officer at New Frontier. "Now in their eleventh year, the Markowitz Awards reflect the kind of high-quality research in the market today."

About New Frontier Institute

The Institute is designed to be a scholarly repository and resource for academics, investment professionals, and investors with interest in understanding the evolution of quantitative asset management beginning in the late 20th century. Dr. Richard Michaud's fifty-year legacy of published research and professional presentations, representing the foundational archive of the Institute, reflects the quantitative methods and procedures that have been put into practice since New Frontier Advisors

was established. The Institute also archives critical contributions by Robert Michaud and Dr. David Esch. The Institute's mission is to promote authoritative research on asset management by bridging the gap between the academy and the workbench with cutting-edge research in daily practice.

About the Journal Of Investment Management

The *Journal Of Investment Management* (JOIM), established in 2003, is a high quality, fully refereed publication, which bridges the theory and practice of investment management. The JOIM offers rigorous research with practical significance, drawing from the disciplines of finance, economics and accounting. Special issues on timely topics including distinguished authors who have both impressive academic and professional experience are a highlight. The JOIM's overall goal is to be mindful of the need to present the very best quality material in a form appealing to the practitioner, student and academic.

Upcoming:

May 17-19, 2021

Virtual Conference co-sponsored with Stanford Graduate School of Business

The Promise and Challenges of ESG

https://www.joim.com/conference-series/

About the JOIM Conference Series

The mission of the JOIM Conference Series, founded in 2006, is to extend the mandate of the Journal Of Investment Management (JOIM) in bridging the theory and practice of investment management. Whereas the JOIM journal is a rigorous peer reviewed publication, the JOIM Conference Series showcases high quality presentations and a platform for interactive discussions of current topics in the investment management arena. Prevalent throughout both activities is the highest quality material suitable for the academic, practitioner and student.