
CASE STUDIES

“Case Studies” presents a case pertinent to contemporary issues and events in investment management. Insightful and provocative questions are posed at the end of each case to challenge the reader. Each case is an invitation to the critical thinking and pragmatic problem solving that are so fundamental to the practice of investment management.

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A PRUDENT MAN

Unlike many small software companies, Postulation managed its fixed benefit pension fund in house. Assistant Treasurer Neville “Nervous” Nelson was very sensitive to the importance of satisfying the Prudent Man stipulation of ERISA.

He observed what the larger companies in his industry were doing with their pension funds, and then bought (and sold) what they bought (and sold). He had concluded that he was not the only small pension fund manager who was echoing the big funds’ trades, because his buy prices were higher and his sell prices were lower.

At an industry trade show, Nelson had confided somewhat apologetically to his counterpart from one of the big firms that he, Nelson, was echoing his counterpart’s pension fund trades. But the man had

responded very generously, offering to give Nelson monthly updates of his holdings.

Nelson was especially grateful because, as the manager of a small fund, he had relatively limited access to important new research ideas. He knew many of his counterparts in the small companies were eager to find out what the big boys were holding.

How is Nelson’s focus on the Prudent Man requirement affecting his performance?

How is it affecting the “big boys” performance?

Is Nelson trading prudently?

How grateful should Nelson be?

Is prudent holding consistent with prudent trading?

Which is more important?

Has modern capital theory made the prudent man obsolete, or worse?

Discussions notes forthcoming in the fourth quarter.