Economics 252 – Financial Markets

Spring 2011

Guest Lecture by David Swensen, Chief Investment Officer at Yale University

February 2, 2011

Multiple Choice Questions

Question 6.1

Which three sources of return does David Swensen outline for both individual as well as institutional investors?
(More than one answer may apply.)

(a) Asset allocation decision.
(b) Market timing decision.
(c) Security selection decision.
(d) Overweight Ford, and underweight GM.
(e)

Question 6.2

David Swensen describes the returns of the strategy of investing into an asset class, taking whatever income was generated from that income and reinvesting it into the same asset class between 1925 and 2009. Order the returns of the following asset classes from smallest to largest return, according to the numbers reported in *Stocks, Bonds, Bills, and Inflation*.

(a) Treasury bonds.
(b) Small stocks.
(c) Equities.
(d) Treasury bills.

Question 6.3

What were the criticisms that the *Barron's* article from November 2008 expressed about the Swensen Approach to portfolio management?
(More than one answer may apply.)

(a) Lack of diversification.
(b) The decision to allow Andrew Golden to leave the Yale portfolio and manage the Princeton portfolio.
(c) Overemphasis on alternative investments.
(d) David Swensen's decision to join President Obama's Economic Recovery Advisory Board.

Question 6.4

David Swensen looks at the distribution of returns for various asset classes in order to assess the market efficiency within these different asset classes. Order the following four classes according to the degree of their efficiency, according to David Swensen's analysis, from the least efficient to the most efficient.

(a) Real estate.
(b) Large cap (capitalization) stocks.
(c) Venture capital.
(d) Bond markets.

Question 6.5

What is the reason that David Swensen outlines for his neglect of the Sharpe-ratio as a measure of risk?

(a) The Yale portfolio does not score high, when institutional portfolio are compared according to their Sharpe ratio.
(b) He does not believe that the Capital Asset Pricing Model is a sensible investment model.
(c) The Sharpe ratio involves the standard deviation of returns, which cannot be meaningfully assessed for various asset classes, e.g. real estate, or timber, or other illiquid asset classes.
(d) He does not neglect the Sharpe-ratio, but is a strong advocate of its usage for the measurement of investment performance.

Correct Answers/Orders

6.1: (a), (b), and (c)
6.2: 1-(d), 2-(a), 3-(c), 4-(b)
6.3: (a) and (c)
6.4: 1-(c), 2-(a), 3-(b), 4-(d)
6.5: (c)