Is Portfolio Theory Dead? Markowitz Stands His Ground

Nobel laureate says modern portfolio theory remained valid during 2008 financial crash

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Modern portfolio theory isn't dead, declared theory inventor and Nobel laureate Harry Markowitz in a televised interview on Tuesday with Index Funds Advisors (IFA).

Markowitz, now an 84-year-old advisor serving on several boards, including that of the registered investment advisor IFA, said he still believes in the concept of "portfolio selection"—two words that were the title of the groundbreaking paper he published in 1952 while still a University of Chicago graduate student. In 1990, Markowitz won a Nobel Prize in economic sciences.

His theory emphasizes the greater importance of choosing portfolio diversification over high-yield individual stock picking (which is why Markowitz recently told *The New York Times* that wise investors shouldn't lose any sleep over Facebook or JPMorgan stock gyrations).
"If you do like I recommend, look at your portfolio once a year when you do your income taxes," Markowitz told IFA founder Mark Hebner in the "Is Modern Portfolio Theory Dead?" episode of a three-part interview on IFA.tv, which is based in Irvine, Calif. "Whether you like portfolio theory or not, whether you think there are black swans or not, either you credit me or blame me, but I am the father of modern portfolio theory."
Insisting that he looks at standard deviations and annual volatility dating back to 1926, when the Ibbotson series starts, Markowitz said that the financial crash of 2008 delivered only a moderate deviation from the norm of the S&P 500 annual return.

Hebner's interview with Markowitz covers topics including the Nobel laureate's accomplishments, his early years, the advent of modern portfolio theory and behavioral finance. Markowitz wrote the foreword for the 2012 edition of Hebner's book, "Index Funds: The 12-Step Recovery Program for Active Investors." John Bogle called the book "incredibly handsome and wise," while Anders Oldenger of Seligson & Co. nominated it as one of the three "all-time greatest investment books," alongside those written by John Bogle and Warren Buffett.