
Foreword

At a recent meeting of the Research Foundation of CFA Institute Board of Trustees, one trustee insightfully commented that a successful Research Foundation book should explore the outer edges of ideas, contributing unique knowledge and perspectives while also being relevant to investment practitioners.¹ This book, a collection of wisdom from today's deepest thinkers on markets and the economy, does just that. The authors deliberately push the boundaries of investment ideas in a way that will cause readers to think differently, yet more constructively, about the world around them.

Although the imminent collapse of financial markets has passed for now, the many consequences of the crisis lie in its wake. Whether the crisis presents a mere flesh wound or something much more severe remains to be seen. At its core, the massive debt owed by developed nations portends weakness in economic growth. An extraordinary moral hazard also remains for financial markets and looms large over the macro economy. These and other pressing economic issues provide the impetus for this book and are confronted with a wide-eyed and clear-headed approach.

We humans possess an unwavering desire for progress, mostly built on innovative tools, ideas, and techniques. Consider how we continually adopt innovations and ideas. My PDA (personal digital assistant) once gave me a competitive edge, but such devices rapidly became ubiquitous and are no longer a nicety but a necessity. This compulsion to adapt, or otherwise fall behind the curve, is firmly entrenched in our human condition. It cannot, and indeed should not, be dispensed with. Further to this point, the wide adoption of ideas and technology mostly produces highly desirable and beneficial societal outcomes. But alas, there is always an exception. In the realm of financial markets, the massive penetration of an idea and/or technology can and has led to dire outcomes. Here, as we are all keenly aware, herding ends badly.

Markets unambiguously work best when we all form our own, independent views. But in forming views, investors, like all people, instinctively fall back on what others are doing around them. This is so because, in grappling with an uncertain future, we figure our view is no better than our neighbors'. Keynes once argued that in the realm of investments, calculating the future is futile, saying that uncertainty in investments has "no scientific basis on which to form any calculable probability whatever" (p. 214).² But progress, indeed human survival, has long relied on anticipating the future. The notion of better solutions found by groupthink actually works

¹Thanks to Frank Reilly, CFA, for this succinct insight.

²J.M. Keynes, "The General Theory of Employment," *Quarterly Journal of Economics*, vol. 51, no. 2 (February 1937):209–223.

well for some applications (for example, when a young farmer sees the more-seasoned farmers planting their crops in the spring and follows suit in the hope for a bountiful summer harvest) but fails miserably when applied to uncertain financial markets.

In the pursuit of progress, we are thus seemingly hardwired for both groupthink and innovation. Unfortunately, the interaction of these two—innovation and collective delusion—in the realm of financial markets all too frequently feeds a wave that builds until it can do so no longer, inexorably crashing upon the shore with systemic impact.

Contrary to groupthink, this book presents a collection of solidly independent viewpoints expressed through many years of practical, relevant experience. We, and our authors, would have it no other way. The articles presented in this book deal head on with the crucial issues confronting our global economy—those of today and those on the horizon. We hope you will find a careful read as rewarding and fun as it has been for us to put the book together.

Finally, we offer our sincere appreciation to the many distinguished authors presented in this book; all have been so very gracious and generous in contributing their time and talent. We are honored by their commitment to the profession. We also thank the CFA Institute Centre for Financial Market Integrity for its partnership in this important endeavor. We are pleased to present these diverse voices of wisdom speaking on the most critical financial matters of our time. With clarity comes progress.

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