❖ Horizon Research Group ❖

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Supplemental Musings

Essay: John Maynard Keynes as Investor

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Murray's Musings

John Maynard Keynes as Investor

John Maynard Keynes was an extraordinary person. The best English language term that we have to describe him would be a polymath. He was not merely an economist; he was a mathematician of great ability. As a matter of fact, his book entitled *The Treatise on Probability* is still read with great interest by mathematicians. He was a patron of the arts, a critic of government policy and a writer of scintillating English prose who probably should be considered one of the greater masters of the writing style of the 20th Century. He was a corporate official, and he managed money for some insurance companies. At various times, he was not merely a critic of the government, but a government official who participated in making government policy.

Most important for the purposes of this report, Keynes was also an investor whose investment style changed greatly throughout his investment career, which was unfortunately cut short by his untimely death at the end of the Second World War. By labeling Keynes a polymath, I mean that he was a multifaceted and multitalented individual. That word, in fact, does not properly describe such a human being. It might be more appropriate to use the Italian term *uomo universale*, or universal man.

Another aspect that is very important in understanding Keynes as an investor is that his investment career was conducted almost entirely during an extraordinarily turbulent era. He was an investor during a time that spans the beginning of the First World War to the end of the Second World War. He experienced World War I and the post-war German hyperinflation, the reestablishment of the gold standard in England in 1925, which had the consequence of overvaluing sterling, and which resulted in the incredibly disruptive general strike of 1926. He lived through the Great Depression and the Second World War. During the latter part of that period, commencing in approximately 1937, he had grave health issues pertaining to his heart.

With all that, he managed to have a very interesting and fertile investment career. One of the most interesting points about Keynes is that his biographers have chosen to say very little about him as an investor, perhaps due to lack of information. In the three-volume Robert Skidelsky biography of Keynes[1] there are no more than a handful of pages on Keynes as investor. Roy Harrod[2] wrote a biography of Keynes called *The Life of John Maynard Keynes*. He was a personal friend of Keynes, but that work contains even less about Keynes as an investor. The other important biography of Keynes is by the

[1] Skidelsky, Robert. *John Maynard Keynes: The Economist as Saviour, 1920-1937*. New York: Penguin Press, 1992.
[2] Harrod, Roy F. *The Life of John Maynard Keynes*. Toronto: George J. McLeod Ltd, 1951.

economist Donald Moggridge,[3] who is not merely an economist, but is also the editor and assembler of *The Collected Writings of John Maynard Keynes*. He also had very little to say about Keynes as an investor.

Nevertheless, there is some information about Keynes as an investor, much of which is also contained in Volume 12 of *The Collected Writings of John Maynard Keynes*. This collection is mainly comprised of various letters written to colleagues, two of whom are quoted in the Skidelsky biography (Skidelsky 525). In a letter written in 1938, Keynes stated the following:

> I was the principal inventor of credit cycle investment, and I have not seen a single case of success having been made of it.

In that quote, Keynes makes reference to the idea of trading either securities or currencies based on the ebb and flow of economic activity. Keynes was a trader early in his career. As he matured and blossomed as an investor, he began to greatly regret his early investments and even his early thinking on many different subjects. He began to change.

Another important quote is from a different 1938 letter (Skidelsky 525). It was written to one of his fellow directors of the National Mutual Insurance Company named Francis Curzon. I think that it adequately sums up Keynes's change of heart.

> I feel no shame in being found still owning a share when the bottom of the market comes. I do not think it is the business of … [a] serious investor to cut and run on a falling market … I would go much further than that. I should say that it is from time to time the duty of a serious investor to accept the depreciation of his holdings with equanimity and without reproaching himself. Any other policy is antisocial, disruptive to confidence and incompatible with the working of the economic system. An investor is aiming, or should be aiming, primarily at long period results and should be judged solely by these.

Apropos of long period results, the organization known as maynardkeynes.org undertook to document Keynes's returns from his management of the so-called Chest Fund, which was the investment portfolio of King's College, Cambridge. When the Chest Fund commenced in 1927, the index was 100 (see Table 1 on page 4). In 1945, which is the last single year that Keynes managed the fund, the index was at 480. The coefficient of expansion is 4.8x, which is compared to the U.K. stock market in the table provided by maynardkeynes.org. The site does not document how the return of the UK stock market is calculated, but I presume it is in a similar manner as the FTSE Index. The chart simply shows that the U.K. stock market commenced in 1927 at 100, and in 1945 it was 85.2.

What's most interesting about the Keynes record is not merely that in the course of 18 years he was able to increase the value of the Chest fund by 4.8x, but that it was done

[3] Moggridge, Donald E. *Maynard Keynes, An Economist's Biography*. London: Routledge, 1992

during a very turbulent period that resulted in a 14.8% decline in the U.K. stock market over the comparable period of time. I don't think any other investor of a similar skill set was able to accomplish a like rate of return during an extended disruptive market. Keynes managed to do it by leaving his investments alone and allowing the best ones ultimately to become the largest part of the portfolio. In such manner, he generated that rate of return. He liked to state, though who knows if it's true, that he spent no more than one day per week thinking about his investments.

Table 1: Performance Chest Fund vs UK Stock Market

Year	Chest Index	Chest Index Change	UK Stock Market	UK Stock Market Change
1927	100.0		100.0	
1928	96.6	-3.4	107.9	7.9
1929	97.4	0.8	115.0	6.6
1930	65.8	-32.4	91.7	-20.3
1931	49.6	-24.6	68.8	-25.0
1932	71.8	44.8	64.8	-5.8
1933	97.0	35.1	78.7	21.5
1934	129.1	33.1	78.1	-0.7
1935	186.3	44.3	82.3	5.3
1936	290.6	56.0	90.7	10.2
1937	315.4	8.5	90.2	-0.5
1938	188.9	-40.1	75.7	-16.1
1939	213.2	12.9	70.2	-7.2
1940	179.9	-15.6	61.2	-12.9
1941	240.2	33.5	68.8	12.5
1942	238.0	-0.9	69.4	0.8
1943	366.2	53.9	80.2	15.6
1944	419.3	14.5	84.5	5.4
1945	480.3	14.6	85.2	0.8

Source: http://www.maynardkeynes.org/keynes-the-investor.html

As an investment thinker, Keynes is not unique. He's not the first, or even the sole, long-term investor; he's merely a great investor who has yet to be significantly studied by investment thinkers. A much deeper study than could be done here should be undertaken.

One other point that has relevance to Keynes as an investor is that his most famous quote is the phrase "In the long run we are all dead." It is usually taken as evidence that he supported the notion of short-term trading, but the origin of the quotation is not usually stated. In fact, it appears in Chapter 3 of the Keynes work entitled *A Tract on Monetary Reform*, which was written in the year 1923. The chapter deals with what Keynes refers to as a laissez faire approach to post World War I inflationary pressures that was exhibited by the central banks of that time. The justification for that approach was that, ultimately, there would be a readjustment and the inflationary pressures would abate. Therefore, government intervention should not generally be required. Keynes took the opposite point of view. He felt that inflationary pressures would not abate unless the governments and central banks undertook actions to counter them. The expanded quote is:

> The long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again.

The quotation is meant to argue against the view that there would be a readjustment in the long run. Keynes's view was that we cannot tolerate, even for a brief period of time, the level of inflation that was experienced in the post World War I world. Taken completely out of context, that quotation has come to define the kind of investor and thinker that Keynes was, and it is completely wrongheaded to do so.