

Maslowian Portfolio Theory

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In this paper we introduce Maslowian Portfolio Theory that postulates that private investors should in the first place adapt investments to investment goals (and hence have different sub-portfolios) and not to one risk profile as proposed in Markowitz Modern Portfolio Theory of 1952. The history of this theory can be summarised as follows:

-For many centuries, investing was the exclusive domain of the very rich (who did not have to worry about subsistence nor about specific projects).

-With this backdrop, Markowitz formulated in 1952 his Mean Variance Criterion, where money is the unique life goal. This is the foundation of the investors risk profile as today almost all advisers use. This Mean Variance theory concluded that all investments should be put in one optimal portfolio. The problem is that this is both impossible and meaningless (which is my optimal volatility, my unique time horizon, etc.).

-However, after World War II, landscape of investing dramatically changed and in a few decades more and more people not only could, but actually had to invest. Those people do have to worry about subsistence and real life-goals.

-In 2001, Meir Statman and Hersh Shefrin, described that people have Behavioural Portfolios: not one optimized portfolio, but rather pockets of separate portfolios for separate goals.

-In 2009, De Brouwer formulates his Maslowian Portfolio Theory. The idea is that for the average investor should keep a separate portfolio for each important life-goal. This created a new, normative theory that gave the justification to goal-based investing and on top of that provides a framework to use it in practice (so that no goals are forgotten and all goals are treated in a reasonable order). PhD on the subject defended in 2012.

-Later developments include a proof-of-concept software and the publication of implementation advice.

We elaborate on the merits of the theory, underline the importance of using a coherent risk measure, balance its strong and weak points and link it back to practice.