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What Keynes got right and wrong about investment [1]

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This is a fascinating paper [3]about the performance of Keynes as an investor. It looks at the performance of the one of the King's College investment funds over the couple of decades that Keynes has total control over the investment allocation. There's one thing that he got absolutely correct. The basic investment strategy of the time was to be in bonds, government securities and so on. Keynes saw that stocks were likely to be a better bet over time: as indeed they have been since then. So a gold star for that.

It's the other point being made about his investment strategy which I think is more important. He started out by looking at the macroeconomy. Trying to time investments on the basis of the ebb and flow of the economy as a whole. And in doing so he managed to underperform the market significantly. As ever when money is involved the loss of it forced him to reconsider his approach. At which point he became what we would today call a "value investor". Damn what the economy is doing as a whole and look at what specific companies in specific sectors are managing to achieve. Or, given that stock markets are forward looking, what they're likely to achieve.

Over the entire time period Keynes was very successful in investing these funds. But it was the gains from the second form of investing that made up for the losses of the first. And here's what really amuses me about this story. Keynes is, of course, regarded as one of the great macroeconomists. Indeed, he defined the way in which most macroeconomists currently attempt to describe the world around us.

But in order to be a successful investor Keynes had to stop being a macroeconomist and look instead to the microeconomics of what was going on. And I think there's an interesting little lesson for us all there. Micro is much more important than macro perhaps?

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