



**For Immediate Release**

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**HARRY M. MARKOWITZ AWARD WINNERS NAMED BY THE JOURNAL  
OF INVESTMENT MANAGEMENT AND NEW FRONTIER ADVISORS**

Nobel Prize Winners Harry M. Markowitz, Robert C. Merton, Myron S. Scholes, and William F. Sharpe make up Special Selection Panel

Moshe Levy and Richard Roll recognized for paper entitled  
*"A New Perspective on the Validity of the CAPM: Still Alive and Well"*

LAFAYETTE, Calif., (January 31, 2013) – The *Journal Of Investment Management* ("JOIM") and New Frontier Advisors, LLC ("NFA") today announced the winners of the third annual Harry M. Markowitz Awards as determined by a Special Selection Panel comprised of Nobel Prize winners Harry M. Markowitz, Robert C. Merton, Myron S. Scholes and William F. Sharpe.

For 2012, top recognition was awarded to Moshe Levy and Richard Roll for their paper, **"A New Perspective on the Validity of CAPM: Still Alive and Well."** In their important paper, the authors demonstrate that "the Capital Asset Pricing Model (CAPM) cannot be empirically rejected, in spite of many academic studies that suggest otherwise."

The Capital Asset Pricing Model (CAPM) has far-reaching practical implications for both investors and corporate managers. The model implies that the market portfolio is mean variance efficient, implying that stock picking is futile and passive management is appropriate. CAPM also provides the definition of the most widely used measure of risk (beta) which is used to compute the cost of capital and

excess return (alpha). Most academic studies empirically reject the CAPM, leaving the lack of a better alternative as the only uneasy justification for using the model. Levy and Roll use a reverse-engineering approach for testing the model and show that with slight variations in the empirically estimated parameters, well within their estimation-error bounds, the CAPM perfectly holds.

“This is critically important research for both investors and managers from one of the pioneering critics of CAPM, Professor Roll,” said Dr. Richard Michaud, President and Chief Investment Officer at New Frontier Advisors. “The results imply that many standard analyses common in investment practice may be far more reliable than hitherto assumed.”

The committee announced two Special Distinction Awards: **“Comment on the Theoretical and Empirical Evidence of Fundamental Indexing,”** by Jeffrey Graham and **“Lifecycle Consumption-Investment Policies and Pension Plans: a Dynamic Analysis,”** by Zvi Bodie, Jerome Detemple, and Marcel Rindisbacher.

In an important paper for many asset managers, Graham challenges the Arnott and Hsu notion that fundamental indexing is superior to cap-weighting. Graham shows that the Arnott and Hsu theory for the superiority of fundamental indexing requires a theoretically inconsistent implicit assumption that investors know “fair value” price in a “mean-reverting” process. Removal of this critical assumption invalidates the performance superiority of fundamental over cap-weighted indices. In addition, using simulation studies, Graham concludes no empirical evidence of likely underperformance of cap-weighted versus fundamental indexes exists.

The Bodie, Detemple, and Rindisbacher paper is a detailed study in the theory of life cycle finance with applications. The issues addressed include saving and investment lifetime prescriptions for individuals, principles of optimal pension plan design, and proper financial services and regulatory policies. Importantly, the paper challenges the idea in “target-date” funds that an individual’s exposure to equities should automatically decline as he or she ages.

“Since they were established in 2010, the Markowitz Awards have continued to attract an extraordinary group of gifted thinkers, and this year’s applicants are no exception,” said H. Gifford Fong, editor of the *Journal of Investment Management*.

“The papers recognized here clearly have the opportunity to shake up many of the bedrock assumptions made by the investment industry, from the application of CAPM and the use of fundamental indexing to portfolio construction in lifecycle investing strategies. We congratulate the winners and look forward to the dialogue that these papers help to spur,” Fong said.

### **About the Harry M. Markowitz Award**

Sponsored jointly by the *Journal Of Investment Management* and New Frontier Advisors, LLC, the Harry M. Markowitz Award recognizes the seminal and transcendent impact of Dr. Markowitz’s work as a financial economist and mathematician on both theoretical finance and the practice of asset management. It was established in 2010 to honor his legacy and to support future research and innovation in practical investment management. Candidates for the annual award are selected by Editorial Board members from papers published in *JOIM* each calendar year. Final selection consists of recognition solely by the panel of Nobelists.

Papers are judged based on their practical significance, technical excellence, and theoretical quality. The winner will receive a \$10,000 honorarium. The two additional finalists each receive a Special Distinction Award and a \$5,000 honorarium.

The awards will be presented at a dinner during the *Journal Of Investment Management’s* annual Spring 2013 Conference, co-sponsored by the Stanford University Graduate School of Business, on March 10-12 in Stanford, California. This year’s conference features a highly accomplished group of speakers, including James G. Coulter, Founding Partner at TPG Capital, the program keynote; Steve Kaplan, Neubauer Family Distinguished Service Professor of Entrepreneurship and Finance, the University of Chicago; John Powers, President and CEO, Stanford Management

Company; and Mark A. Wolfson, Managing Partner, Oak Hill Investment Management.

For more information on the conference or to register, please go to <https://www.joimconference.com/conferences.asp>. Attendance is limited.

***About the Journal Of Investment Management***

For more information, please go to [www.joim.com](http://www.joim.com)

**About New Frontier Advisors**

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