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PORTFOLIO INSURANCE FIGHT

Praise for book turns to criticism

Author says an FAJ reviewer's statement violates the AIMR's ethics standards and the SEC's disclosure rules

By **Barry B. Burr**

Martin S. Fridson, in the review pages of the Financial Analysts Journal last summer, lauded Bruce I. Jacobs' controversial book on portfolio insurance, the 1987 stock market crash and newer option replication strategies, saying it is "meticulously documented" and "presents compelling evidence."

Five months later, Mr. Fridson wrote an unprecedented retraction for the FAJ, although he doesn't call it that. This time he wrote what he titled "Postscript," noting Mr. Jacobs used "selected quotations" to make portfolio insurance look bad. Mr. Fridson is book review editor of the FAJ and is employed as chief high-yield strategist at Merrill Lynch & Co., New York.

Now, in a further blast, Mr. Fridson defends the way Leland O'Brien Rubinstein Associates Inc. in the 1980s presented risks of portfolio insurance to prospective clients. He takes issue with Mr. Jacobs, who asserts the "failure (of LOR) to adequately disclose the pitfalls."



Martin S. Fridson, left, praised Bruce I. Jacobs' book "Capital Ideas and Market Realities" in a review in the Financial Analysts Journal, then five months later took back the praise.

In the newly issued May/June FAJ, Mr. Fridson writes, "I concluded that sophisticated investors who knew the right questions to ask would not have been misled." That statement, Mr. Jacobs contends, violates the AIMR's ethics standards and the SEC's disclosure rules.

The Association for Investment Management and Research publishes

the FAJ. Mr. Jacobs is principal of Jacobs Levy Equity Management Inc., Florham Park, N.J. His book is: "Capital Ideas and Market Realities: Option Replication, Investor Behavior, and Stock Market Crashes."

Patricia Walters, senior vice president-professional standards and advocacy at the AIMR, declined to discuss Mr. Fridson's situation in particular.

But she said under AIMR standards, investment advisers have an obligation in their marketing to inform prospective clients of all the potential risks associated with the investment product. "No, it's not up to the client to ask the right questions," she said.

Ms. Walters said that making a statement such as about sophisticated investors who knew to ask the right questions "isn't a violation of AIMR standards (because) no one is giving anyone investment advice in the journal."

Surprised at review

Mr. Jacobs said he had been surprised by Mr. Fridson's favorable review of his book. He said some people involved with the FAJ had, in the past, blocked publication of his articles critical of portfolio insurance.

Mr. Fridson said after writing the favorable review, he had decided to revisit the book because of "feedback generated by the review."

Mark E. Rubinstein said he suggested Mr. Fridson consider writing a "correction" to his original review. Mr. Rubinstein, professor of applied

investment analysis at the Haas School of Business, University of California, Berkeley, was a principal of LOR, the primary vendor of portfolio insurance in the 1980s, and is on the FAJ's editorial board.

Mr. Rubinstein said he was concerned about the favorable review of the book because of factual errors it contained about portfolio insurance. Mr. Fridson "assumed what Jacobs said was true," Mr. Rubinstein said.

Mr. Rubinstein complained that Mr. Fridson's review repeated Mr. Jacobs' criticisms of portfolio insurance and, therefore, was critical of the reputations of people at LOR. He said the FAJ doesn't publish articles that are critical of peoples' professional reputations.

Said H. Gifford Fong, FAJ editor and president, Gifford Fong Associates, an investment analytic and research consultant in Lafayette, Calif.: "If there was pressure from someone on the editorial board, I would see that person would not be on the board" anymore.'

Mr. Rubinstein said Mr. Jacobs might have an ax to grind with him because of his rejection of the arti-

cles submitted to the FAJ in the early 1980s. Mr. Rubinstein denied he was trying to censor criticism about the strategy, noting he had accepted for publication other submissions critical of portfolio insurance and also had invited Mr. Jacobs to a conference at Berkeley in the mid-1980s to present his view on portfolio insurance.

'No conflict'

Mr. Rubinstein said his rejection of Mr. Jacobs' submission "could have been construed as a conflict of interest. I did have a conflict of interest," being a portfolio insurance vendor. "The question is, did it affect my judgment? It didn't because I was the best qualified to evaluate it (the submission). I look at myself as an academic first."

He said he rejected Mr. Jacobs' submission "because I didn't think it was scholarly enough."

"I shouldn't have done that," Mr. Rubinstein added. "I was naïve as an academic. Jacobs believes I rejected it because it affected my financial interest."