Perspectives

Everything and More

April 4, 2022

Very rarely does a sequel stand up to the original. For every Empire Strikes Back and Godfather II, there have been far more Jaws II's and that second Caddyshack without Chase and Dangerfield.[1] Luckily, that's not the case here!

My colleague and former classmate Antti Ilmanen is at it again with his second book, *Investing Amid Low Expected Returns*. For those of you who read his first book, you might wonder what topic possibly went unexamined in those 550 pages to warrant a sequel. The short answer is the new book covers a lot more ground (while somehow using fewer pages!) and is more focused on the specific situation today.

Antti starts with a frankly depressing set of chapters showing that despite an unusually wonderful decade for many asset classes, investors today face their worst prospects in over a generation. Why? A lot of assets have done well simply by getting richer, distorting expected returns, and even realized returns.[2]

The central challenge for investors today is what to do about the low expected return environment. Unfortunately, there are far more bad options than there are good ones. Antti invokes the Serenity Prayer (no, not my favorite one) as a guide to identify the most constructive ways to succeed (the subtitle of the book, "Making the Most When Markets Offer the Least", could have been "when life gives you lemons…").

The book's second part focuses on evidence and theory—what's worked, what hasn't—and, crucially, *why*. Antti tackles the hardest questions head on, such as data mining concerns, who is on "the other side" of historically successful strategies,[3] and whether the world has changed enough that history has become an ineffective guide.[4]

Antti ends with how to put it all into practice — how do you take a set of investment beliefs and implement them as efficiently as possible. For instance, portfolio construction, risk management, cost control, ESG, tactical timing and avoiding bad investment habits — all things we and Antti specifically have written about at AQR for the past decade+, but all updated and in one place.

A book like this one is always going to be useful to the investment community. Unfortunately for us all (but fortunately for Antti), today's low expected return environment probably makes this book more valuable today than we would have liked.

---

[1] Though sometimes I do feel like Antti don't get no respect. At least not enough.

[2] The other way you can do really well is if the fundamentals are the driver. For instance, the stock market soars, but its P/E (done however you like) doesn't, as the E soared as much as the P.

[3] Hint, if you don't have at least a pretty good guess, you might want to reconsider participating.

[4] Spoiler alert, stop reading now if you don't want me to ruin it: No, it has mostly changed by getting more expensive.

The views and opinions expressed herein are those of the authors and do not necessarily reflect the views of AQR Capital Management, LLC or its affiliates (collectively "AQR") nor do they constitute an offer or solicitation of an offer, or any advice or recommendation, to purchase any security, strategy or investment product. The information contained herein does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of AQR. While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability of fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sale materials. The advice and strategies contained herein may not be suitable for a reader's situation. A reader should consult with a professional where appropriate. All endorsements are related solely to "Investing Amid Low Expected Returns" and are not related to AQR or AQR Advisory services.

This document has been provided to you solely for information purposes and does not constitute an offer or solicitation of an offer or any advice or recommendation to purchase any securities or other financial instruments and may not be construed as such. The factual information set forth herein has been obtained or derived from sources believed by the author and AQR Capital Management, LLC ("AQR") to be reliable but it is not necessarily all-inclusive and is not guaranteed as to its accuracy and is not to be regarded as a representation or warranty, express or implied, as to the information's accuracy or completeness, nor should the attached information serve as the basis of any investment decision. This document is intended exclusively for the use of the person to whom it has been delivered by AQR, and it is not to be reproduced or redistributed to any other person. The information set forth herein has been provided to you as secondary information and should not be the primary source for any investment or allocation decision. Past performance is not a guarantee of future performance.

This material is not research and should not be treated as research. This paper does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of AQR. The views expressed reflect the current views as of the date hereof and neither the author nor AQR undertakes to advise you of any changes in the views expressed herein.

The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Charts and graphs provided herein are for illustrative purposes only. The information in this presentation has been developed internally and/or obtained from sources believed to be reliable; however, neither AQR nor the author guarantees the accuracy, adequacy or completeness of such information. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in making an investment or other decision. There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such.
The information in this paper may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.