

Foreword

I remember very clearly the day I met Harry. I walked into his office where he sat writing a response to a letter that arrived on his desk. I knew nothing about financial economics. He was generous with his time. After a brief conversation we headed to dinner to meet his wife, Barbara. That dinner lasted for many hours as he patiently explained the finer details and mathematics of diversification, utility functions, optimization algorithms, and of course, portfolio selection. As we finished dinner, he listed a few articles he thought would help improve my understanding. I read all those references soon after that dinner and many times in the years since.

New students to the field of financial economics will find the foundation of our discipline in these works. *Portfolio Selection* in Chapter 2 explains "risk", "diversification", and "portfolio selection". The companion article, *The Utility of Wealth*, speaks to the idea of measuring wealth. More advanced readers will find support for efficient market theory and behavioral finance in these classic articles. Students and practitioners in the field of Operations Research will find the "Markowitz Rule" which today often aids the speed of determination of large matrix inversion problems in Chapter 3. Practitioners will find not only supporting logic for the pursuit of diversification in their client's portfolios through optimizations in this chapter but a detailed discussion of a solution algorithm. Chapter 4 again reaches into the field of Operations Research with its articles about the SIMSCRIPT language one of several computer languages that traces its origin to Harry. Readers will also find lessons on research methodology in these articles.

The first works in Chapter 5 speak to ideas either directly mentioned in or alluded to in Harry's first book. Several of these ideas remain a source of contention. Economic theorists still argue that all forms of utility functions hold value for empirical uses and practitioners spend countless hours trying to select a representative utility function in their portfolio construction problems. *Approximating Expected Utility by a Function of Mean and Variance* serves as the touch point for this argument while *Mean-Variance Versus Direct Utility Maximization* provides good empirical evidence to reject many utility maximization exercises as unnecessary. Later articles in this chapter return to the topic of computer programming languages with application to portfolio problems. This chapter concludes with entries about the topic of long run investment.

Chapters 6 and 7 are a collection of papers that comfortably are at rest in the world of theoretical financial economics or the world of the practitioner.

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Several of articles in these chapters offer good guidance to practitioners as well as sound theoretical arguments.

A few weeks ago Harry, Barbara and I again sat at dinner discussing this volume. Once again he was patient and generous with his time. As he explained which articles he included in the different chapters, I found myself thinking about the concepts contained in many of these classic pieces — about how freely the ideas in these papers move between theory and practice. And just what these ideas mean to so many people in the operations research field, simulation teams, the financial services industry as well as different academy departments. The ideas in these pages have spawned industries, helped companies and governments address complex problems, and launched the careers of many professionals. What more can be said, enjoy!

Bernard V. Tew
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