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John Maynard Keynes as Investor Part II

Originally Published in the Global Contrarian Research Report Compendium, October 2010



*Exclusive Marketers of the
Global Contrarian Research Report*

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How They Did It

Tales of the Greatest Investors of All Time

John Maynard Keynes as Investor, Part II

John Maynard Keynes as an investor has not really been studied. Robert Skidelsky, Donald Moggridge and Roy Harrod each wrote biographies of Keynes and, as noted in Part I of this essay, they barely discuss Keynes as an investor. However, many statistics can be found among the Keynes papers that were collected and edited by Professor Donald Moggridge. Those that I'll be referring to are included in *The Collected Writings of John Maynard Keynes: Volume XII: Economic Articles and Correspondence; Investment and Editorial*, which is out of print, unfortunately.¹ It cannot be purchased for any sum of money, because it simply is not available.

It is not well appreciated that Keynes, as a personal investor, used a not-insignificant amount of leverage in his portfolio. Table 1 of this section is extracted from the Moggridge book, and it provides an idea of how leveraged Keynes was at different times during his career. For example, in August 1920, his net assets were negative 1,837 pounds sterling. The table shows the number of securities he carried and the loan balances. In 1929, on the eve of the Great Depression, Keynes had net assets of 7,815 pounds sterling, and loans of 14,000 pounds sterling. Clearly, he had a significant amount of leverage. By 1930, the value of his debt position was 65,000 pounds sterling, and the currency value in pounds sterling of his net asset position was 12,525.

In 1936, his high-water mark, not in terms of leverage, but in terms of the absolute value of the loan portfolio, was slightly in excess of 299,000 pounds sterling. Keynes employed a high degree of leverage and, as anyone can see from looking at these numbers, he used it during what anyone would say was the most disastrous economic period of the 20th century.

¹ Moggridge, Donald E., ed. *The Collected Writings of John Maynard Keynes: Volume XII: Economic Articles and Correspondence; Investment and Editorial*. Cambridge: Cambridge University Press, 1983: 11.

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Table 1: Keynes's gross and net assets (£) 1919, 1920 (August), 1922-1946

Year (31 Dec.)	Gross Assets			Loans	Net assets
	Securities	No.	Other ^a		
1919	14,453	4	17,360	15,498	16,315
1920 (1 Aug.)	19,000	4	—	20,837	-1,837 ^b
1921	14,288	7	10,050	2,720	21,558
1922	26,839	12	8,725	1,200	31,364
1924	56,976	18	8,021	1,200	63,797
1925	26,507	19	18,303	1,200	43,610
1926	27,550	22	15,450	2,200	40,800
1927	78,500	21	12,400	46,900	44,000
1928	35,480	20	3,370	25,790	1,360
1929	18,165	20	3,650	14,000	7,815
1930	20,565	19	56,960	65,000	12,525
1931	19,488	17	7,575	11,965	15,100
1932	23,994	19	17,552	19,774	21,722
1933	78,925	21	55,156	78,859	55,222
1934	299,363	75	11,987	165,343	146,007
1935	377,450	79	31,440	188,271	220,619
1936	692,059	87	113,950	299,347	506,522
1937	346,697	80	58,582	190,035	215,244
1938	250,285	70	37,732	106,470	181,547
1939	267,605	62	41,026	109,136	199,495
1940	188,353	56	43,392	60,655	171,090
1941	193,992	49	40,042	28,753	205,281
1942	243,057	45	30,736	19,720	254,073
1943	308,058	49	36,956	31,643	313,371
1944	365,864	44	35,613	46,167	355,310
1945	436,194	39	13,930	38,886	411,238

a Includes book profits on speculations, net assets of the Tilton Company, personal loans, cash, farm capital, Arts Theatre (Cambridge), insurance policies, leases, etc.

b Excludes the 'moral' debts resulting from the Syndicate of £6,750.

Source: Moggridge, Donald E., ed. The Collected Writings of John Maynard Keynes: Volume XII: Economic Articles and Correspondence; Investment and Editorial. Cambridge: Cambridge University Press, 1983: 11.

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The interesting question to ask is how Keynes was able to navigate that economy. As noted in Part I of this series, Keynes became a long-term investor in the 1930s. It wasn't that he ceased trading; it's that he held positions for much longer periods of time. He changed the qualitative nature of the types of securities that he chose. To introduce that subject, I call attention to Table 2 (page 13), which shows Keynes's income for every year from 1908 to 1946, the last year of his life.

The figures are given in the British tax year; for example, 1908 means April 1908 to April 1909. The first year that Keynes had an income was 1908, and one can see from this table that the amount of income that his portfolio generated was usually rising. The great exception was the beginning of the Second World War, when two things happened in Keynes's life. The first is that he became very ill from heart disease. One can understand how a man with heart disease who wished to provide for his wife might choose to lower his debts. The second was the shadow of the Second World War, during which Keynes served in the British Treasury. Given British laws of that time, his trading activity was probably constrained to various degrees; nevertheless, he managed to increase his income even during the war years.

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Table 2: Keynes's income (£) by tax years, 6 April 1908 to 5 April 1946

Year	Income ^a		Allowance from J.N. Keynes	Total
	Total	(of which academic)		
1908-9	200	115	180	380
1909-10	595	580	110	705
1910-11	595	575	135	730
1911-12	664	623	105	769
1912-13	815	726	95	910
1913-14	906	741	85	991
1914-15	992	702	80	1,072
1915-16	1,214	358	65	1,279
1916-17	1,303	248	55	1,358
1917-18	1,390	275	—	1,390
1918-19	1,802	324	—	1,802
1919-20	5,156	3,819	—	5,156
1920-21	3,935	3,324	—	3,935
1921-22	3,794	2,786	—	3,794
1922-23	5,929	4,950	—	5,929
1923-24	4,414	1,177	—	4,414
1924-25	5,963	1,403	—	5,963
1925-26	5,523	1,690	—	5,523
1926-27	6,648	1,636	—	6,648
1927-28	5,558	1,436	—	5,558
1928-29	3,764	1,498	—	3,764
1929-30	3,725	1,657	—	3,725
1930-31	4,502	1,406	—	4,502
1931-32	6,420	2,561	—	6,420
1932-33	5,447	3,296	—	5,447
1933-34	7,750	3,356	—	7,750
1934-35	6,528	2,229	—	6,528
1935-36	6,552	1,703	—	6,552
1936-37	15,194	1,248	—	15,194
1937-38	18,801	1,388	—	18,801
1938-39	6,192	1,337	—	6,192
1939-40	10,080	1,262	—	10,080
1940-41	11,774	1,127	—	11,774
1941-42	14,353	1,403	—	14,353
1942-43	12,657	1,117	—	12,657
1943-44	13,302	1,122	—	13,302
1944-45	14,392	971	—	14,392
1946	11,801	867	—	11,801

a The primary source is Keynes's own tax calculations in the Keynes papers, supplemented by other information in the papers so as to assign income to the year in which it actually accrued.

b Includes income from lectures, Fellowship, examining, the Royal Economic Society, books and articles and his position as a Bursar of King's College, Cambridge.

Source: Moggridge, Donald E., ed. *The Collected Writings of John Maynard Keynes: Volume XII: Economic Articles and Correspondence; Investment and Editorial*. Cambridge: Cambridge University Press, 1983:2.

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Table 3 (page 16) provides more details on the portfolio. As previously noted, in 1920 Keynes's net assets became negative. In the early 1920s, he had a penchant for carrying very large security positions, but in currencies that had very small payouts, because he was essentially investing in short-term fixed-income instruments. The thrust of his investing was to earn profit from changes in the currencies. Ultimately, he was successful. However, during that period of time, when on a mark-to-market basis he was not successful, it became extraordinarily difficult to carry the investment, a mistake that Keynes never forgot. Therefore, during periods of time when he carried great amounts of leverage, he made certain that he had adequate portfolio income to carry his debts.

It's worth noting that rates were very low in the 1930s. In principle, one didn't need huge amounts of portfolio income to carry the debts. Nevertheless, Keynes seemed to require an ever-rising margin of safety in terms of the cash-carry of his positions. Perhaps because of that reason, he was able to be a long-term investor.

Let's put this approach in theoretical, but nevertheless simplistic, arithmetical terms. Let's assume that an investor wished to earn 6% on principal equal to \$1 million, but the available yield on a fixed income portfolio was only 5%. If the cost of short-term borrowings was 1%, that would create a 400-basis-point spread on every dollar borrowed. In principle, if one used 25% leverage, one could have a portfolio income of 6%. By adding 10% more leverage, one could bring the total income on a one million dollar investment up to \$64,000, or 6.4%. If one's cash requirement was \$60,000, the differential of \$4,000 would represent a margin of safety. One could either reinvest that income in more bonds or, alternatively, use it to pay down one's debts, which would probably be the more prudent choice. The debt and carry generated from owning the securities purchased with debt would be a means of gradually increasing one's net assets. It's very clear from the figures in these tables that Keynes was using that approach.

One should be very cautious when looking at the data in these tables, especially the figures on net assets. They can't be used to generate investment performance, because Keynes also used his money, not merely to live, but also for his various activities. We don't have good numbers on his cash flow for charitable activities, intellectual pursuits, book-buying or any of his other hobbies. Chances are, since he lived well, the actual returns would have resulted in a higher level of net assets than he had when he died in 1946. By any standard, he was a remarkably wealthy person, certainly by the standards of academics, and maybe by the standards of anyone. He understood that leverage is an asset class that can be defined. It has precise numerical properties, unlike modern-day asset class nomenclature, like emerging markets and small capitalization stocks, which have ambiguous characteristics.

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Table 3: Keynes's investment income by source 1920-45

Year	Sterling dividends (gross) (£)	Dollar dividends (gross) (\$)	Sterling capital gains (£)	Dollar capital gains (\$)	Currency speculation (£)	Commodity speculation (£)	Misc. speculation ^a (£)	Other ^b (£)
1920	815	—	-602	—	-10,632	—	—	—
1921	885	—	-1,638	—	9,677	2,155	—	—
1922	346	—	-1,180	—	3,335	6,729	13	—
1923	654	—	3,618	594	4,946	13,702	299	65
1924	1,581	—	1,038	—	4,817	15,245	610	103
1925	2,649	250	-356	—	-335	-5,627	-2,298	142
1926	1,804	400	-3,333	—	419	6,570	—	124
1927	2,119	500	850	—	188	10,525	—	146
1928	2,791	100	4,325	3,250	—	-23,267	—	252
1929	1,517	—	3,440	—	—	-70	—	78
1930	2,190	—	-973	—	—	-3,009	—	48
1931	2,470	—	1,583	—	—	1,550	—	35
1932	1,078	—	-4,044	-443	—	404	—	20
1933	1,805	—	33	11,142	83	2,364	—	25
1934	3,056	8,251	20,559	-799	-466	8,820	—	151
1935	6,191	11,039	22,404	5,600	-2,092	-4,304	682	204
1936	11,795	19,217	30,169	92,432	12,362	36,009	407	373
1937	17,353	37,884	54,884	234,097	1,056	-8,141	-2,299	546
1938	5,961	13,997	-18,572	-140,819	-1,844	-3,612	-315	504
1939	3,209	5,555	-3,548	30,900	-1,668	-3,138	-554	544
1940	8,189	8,241	1,005	3,517	—	—	—	797
1941	12,729	1,527	-58	-62,923	—	—	—	748
1942	11,074	1,112	11,432	—	—	—	—	978
1943	8,657	879	7,925	12,183	—	—	—	863
1944	11,402	548	-838	—	—	—	—	1,152
1945	5,156	2,277	9,052	56,766	—	—	—	863
Total			£137,175	\$245,497	£19,846	£52,905	-£3,455	

a Options, stags, etc.

b Income, etc., on unlisted securities.

c Some small dollar dividends in sterling.

Source: Moggridge, Donald E., ed. *The Collected Writings of John Maynard Keynes: Volume XII: Economic Articles and Correspondence; Investment and Editorial*. Cambridge: Cambridge University Press, 1983: 12.