

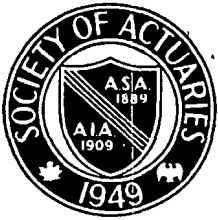


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## AN ACTUARY ON WALL STREET?

by Joseph H. Dowling

There is a tendency, all too human, for many actuaries to define their profession rather narrowly, as though it related only to those few functions traditionally described as actuarial work. If this limited point of view were correct, there would be no place on Wall Street for the actuary as such. If, on the other hand, one views the actuary as having the benefit of a special education and experience which permits him to accrue a breadth and a depth of understanding of insurance unattainable by other routes, then there not only is a place for such an individual on the Street, there is a need for him. Few industries are so poorly understood by the investor as insurance and any area of misunderstanding in the investment world is taken by the less than ethical as an opening for exploitation.

Wall Street's principal business is publicly-traded securities—e.g., bonds, stocks, warrants, etc.—and most of the Street's people are concerned with them—analyzing, selling, and trading them, or providing support for those who do. A small number of people are engaged

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The Joint Actuarial Committee on Financial Reporting has prepared a response to the American Institute of Certified Public Accountants Exposure Draft of "Audits of Life Insurance Companies." The response is a 150-page detailed discussion of points raised by the draft Audit Guide. It also includes the results of studies and analyses made by the committee. Copies of the response will be available at the Society office on or after June 7. A charge of \$2.00 per copy will be made to cover reproduction and mailing costs.

## To Our Readers

Please note that the address is now

THE ACTUARY  
15th Floor — 1740 Broadway  
New York, N. Y. 10019.

## INPUT-OUTPUT OR INPUT-INPUT ANALYSIS

by James C. Hickman

We are served by a multiplicity of complex systems that provide such diverse products and services as protection, information, transportation, energy, and three square meals a day. There is usually more than one way of constructing each of the systems and this suggests the desirability of establishing measures of efficiency for the alternatives so that we may rationally choose among them. Indeed, the richness of the options open to managers in constructing business and governmental systems requires, if these systems are to avoid some of the pain and suffering of evolutionary trial and error, that measures of efficiency be designed.

In some areas these measures can be satisfactory. Although the degree of sophistication in the computation of their respective efficiency indices may have differed, both Charles Wilson with his desire to provide "the biggest bang for the buck" and Robert McNamara with his elaborate cost effectiveness studies, sought to allocate the nation's defense funds so as to maximize national security as it was perceived by the administrations they served. The quantification of the efficiency of engines converting heat energy to mechanical energy may require ingenious technology, but the final measurement has objective certainty. In many private businesses the market provides an almost immediate judgment on the success of a system in

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## MOSES REVISITED

(Extract from a recently discovered  
*Dead Sea Scroll*)

by Ian M. Charlton

The Supreme Ecumenical Association to Research Clurgical Heresay (hereinafter referred to as SEARCH) had been studying more palatable and salable verbiage for the Ten Commandments, with benefit illustrations. The chief governing supervisor of the Security and Investment Council (affectionately called SIC) was alleging that adherence to said Ten Commandments was indeed an investment in the hereafter, should be subject to SIC regulations, and should no longer be referred to as the Ten Commandments but rather *Measures for Modern Morality—A Ten-Point Plan for Investing in the Hereafter*. This would mean:

(a) Any promotional material designed to interest a parishioner, which included illustrations depicting benefits incident to profitable investment in the hereafter through observance of the Ten Commandments, must contain the following disclaimer (or words which are not, in the judgment of the Supervisor, "not less unfavorable"):

"For illustration only. Investment results are based on past experience which may or may not be reflected in the future."

(b) Prior to introducing a parishioner, regardless of age, to the Ten Commandments as a method of investing in the hereafter, a representative of SEARCH, now considered an associate of a Broker/Dealer, must precede his message with a prospectus to provide the potential investor with an adequate basis for judging the offering.

The proposed prospectus would have to include the following:

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## Management and the Actuary

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ing and by other managerial skills. Or again, he must describe duties and responsibilities fully and clearly but must leave room for the worker to exercise initiative. At every turn a manager is seeking to achieve a fine balance. Thus a manager is practicing an art in which there are no final absolute answers.

Anyone who finds himself thrust into a management position can appreciate the complexity and delicacy of his task. His first question is likely to be, "Is it possible to learn something about this delicate balancing act without making most of the mistakes which have been made many times before?"

It would seem that something can be learned by talking to others who have had more abundant experience. Any manager would likely have access to a more mature manager who probably has a responsibility to train his subordinate. One could undoubtedly gain from contact with a wider range of experience obtained in management training seminars which may be formally or informally organized for this purpose.

Serious management scholars have attempted to distill significant factors from the past experience of managers and present them in an organized manner. Two of them, Harold Koontz and Cyril O'Donnell, have organized management principles into five functional areas: Planning, Organizing, Staffing, Directing, Controlling. Their book, *Principles of Management* published by McGraw-Hill, contains extensive bibliographies which can lead the manager into more extensive consideration of each of the functions. □

## An Actuary on Wall Street?

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in providing investment banking services to corporate managements including, when necessary, the construction and distribution of new securities and/or merger and acquisition assistance. Others are engaged in the management of portfolios.

The natural place for the actuary to employ his prior insurance experience on Wall Street while building his investment acumen is in the research department as a security analyst following insurance issues. Analysts work for retail brokerage houses (doing business with the public), institutional brokerage

## IBNR

The Boleslaw Monic Fund of Amsterdam, Holland, announces an essay competition offering prizes for the best papers submitted to the Fund on the following question:

*The reserve position of an insurance or reinsurance company must include a component for IBNR (Incurred But Not Reported) losses, and IBNR losses are an important factor in liability excess of loss reinsurance underwriting. What scientific and quantitative method(s) can be used for determining the IBNR both for reserve and underwriting purposes?*

*N.B. Actually reserves for IBNR are also meant to cover increases required in future in respect of reserves for claims already known.*

The closing date for the submission of papers is Oct. 31, 1971. The distinguished Committee of the Boleslaw Monic Fund consists of Sir George Maddex, Chairman; Dr. H. Ammeter, Prof. D. J. Engelfriet, Prof. E. Franckx, and E. J. Slager, Secretary-Treasurer.

Further information about the competition may be obtained from E. A. Lew.

houses (doing business only with institutions such as mutual funds, pension funds, insurance companies, etc.), and institutional investors (such as I.D.S., Dreyfus, Mellon or Morgan Banks, Prudential, Travelers, U.S. Steel Pension Fund, General Electric Pension Fund, and thousands of others).

Regardless of the affiliation, the responsibilities are similar: the identification and quantification of those characteristics of a company and its securities that determine the *worth* of the securities and to relate that worth to its *price* and to the price level of other securities in the market. The ideas developed must then be communicated through others to the buying or selling of securities for that is the purpose of the exercise.

Taught like a science, practiced like an art, security analysis is no easier to describe than it is to perform. In the short run, it becomes for the devotee the supreme test of skill and ego as one plays in a 50,000-sided contest for very real and very high stakes. In the long run it is the supreme leveller of men, as—in the long run—one is almost al-

## DEATH

Frank A. Shailer

ways wrong, and the market goes on as if the man and his mistakes and successes never really mattered.

The analyst may choose to stay in research for his entire career; most of the actuaries who have come to the Street have done so thus far. However, one should not overlook the alternatives open if other interests should develop. Analysts who find the communication of ideas, particularly in man-to-man contact, more interesting than the in-depth review of the technical and accounting aspects of a company, frequently become institutional salesmen. If the market as a mechanism itself captures their fancy and if, also, they develop the undefinable skill of having market judgment, analysts become money managers. Industry itself has not overlooked the analyst's experience as a training ground and a number of analysts have gone into the industry they followed at high levels or have exercised their entrepreneurial interests by starting new companies. The best men in the industry prepared them for the job.

Nothing is so overstated about the stock market as the income of its practitioners. Research analysts in retail houses probably earn between \$15,000 and \$50,000. Senior analysts of institutional houses earn between \$50,000 and \$200,000. In addition, the opportunity to develop ideas for one's own account and to take positions in new ventures can be capitalized on.

Last year, the Year of the Bear on Wall Street if not in China, saw a high unemployment rate among Wall Streeters, with some people estimating that a quarter to a third of all security analysts were unemployed. Part of the compensation obviously is meant to offset this risk, which occurs about once every three years.

The question is often asked, "Would I recommend others join this business?" The answer is simple, "Probably not now." The changes taking place on Wall Street are beyond prediction as the number of firms declines and turmoil and fear still exist. When things straighten out, "Yes", but only with the realization of the hazards of the business and the necessity for a high level of tolerance for the intolerable vagaries of an unpredictable but fascinating world. □