



SOCIETY OF ACTUARIES

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Management and the Actuary

(Continued from page 2)

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?

(Continued from page 1)

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

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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. □