

## THE AUSTRALIAN

STOCK QUOTES			
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<b>MARKET</b>	S&P/ASX 200 <b>-1.17%</b> 5877.9000   ANZ <b>-1.17%</b>		
S&P/ASX 200	AUD/USD	TOP GAINER WOR	TOP LOSER ANN
<b>-1.17%</b>	<b>-0.00%</b>	<b>+8.73%</b>	<b>-5.51%</b>
<b>5877.9000</b>	<b>\$0.78</b>	<b>\$10.96</b>	<b>\$27.95</b>

# Michael McKenzie brought pragmatism to investing

STIRLING LARKIN THE AUSTRALIAN APRIL 18, 2015 12:00AM



Michael McKenzie, who was well known for his work on naked short selling, died in a sporting accident in Britain. [See more photos](#)  
TheAustralian

**In a world where incremental market and economic insights shared by the likes of Warren Buffett, John Maynard Keynes and Milton Friedman inspired millions, one Australian financial luminary remained relatively unhailed and yet his work shone a light as bright as arguably anyone else before him.**

Michael McKenzie was unique and peerless — an Australian finance academic who not only held mastery of both the classic and also contemporary economic theories of our times but also combined these with a brutally practical approach to markets and investing, particularly for Australian investors.

Within Australian Ultra High Net Worth investing in particular, the quintessential question of our time became how do you level out a broadly dispersed portfolio of risky and conservatively positioned assets along what is referred to as the “efficient frontier” — a curve representing the combined best possible expected levels of returns for given levels of risk — when such a curve is clearly distorted due to the unconventional global government interventions of our modern era.

In addressing and ultimately answering this, McKenzie found an elegantly simple path forward.

Clever enough not to try and solve with one solution or explanation, McKenzie, a pragmatist until the end, argued that Australian investors needed to separate and thereby subdivide their allocations and by so doing, allow the forces over each to work through their natural steps.

For investors, this meant acknowledging that the asset price movements seen in their real estate investments should not be compared to those seen within their ASX 200 stockmarket allocations nor any or all other asset classes domiciled abroad; such as private equity, alternatives or commodities.

Believing in many ways that US and global quantitative easing was “madness”, McKenzie argued that in such an era when the classic paradigms of Hayekian and Austrian economics were disobeyed, Australian and global investors had to adjust and accept the new realities faced.

On this, written in English far clearer and more profound than anything I could ever write, McKenzie once told me that “the main tip is to have a very clear vision of what it is your portfolio is trying to achieve before you start to invest. Further, try to then break it down into sections to make a huge task seem more achievable”.

For all Australian investment communities this meant appreciating that listed shares in the top ASX 50 would behave quite differently than those seen either off-market or at the bottom of the market capitalisation spectrum.

This was simply because global quantitative easing had a natural disproportionate impact on larger, more institutionally supported investments than those seen with more broadly supportive retail participation, that is, small cap stocks.

But far more than simply finding a road map for Australian investors to follow, McKenzie then went to work on addressing the practicalities of markets, investor behavioural heuristics (in other words, how people actually behave in reality given circumstance) and why the supposed laws of the jungle in 2015 no longer make sense to ordinary and sophisticated investors alike.

Far smarter than many recently lauded Nobel Economic laureates, McKenzie dispelled the notion that “animal spirits” explained such market behaviours.

Knowing that the answer did not lie in any one explanation or solution, McKenzie, following the GFC years, dedicated his professional and personal focus on tackling each difficult conundrum, one by one. Always disciplined, always stoic in his pursuit of the truth, McKenzie employed the best empirical tools available to us here in Australia and he allowed the data to drive him towards his objective ends.

This hard work shed valuable light on areas such as the “flight-to-quality” phenomenon and why asymmetric volatility responses were being seen in US Treasuries — an asset class subset that affects all fixed income yields around the world, including Australia’s bonds, fixed income and term deposit investments.

McKenzie was recognised as leading the world in research and the understanding of the impact of naked short selling (i.e. the selling of borrowed shares without collateral to profit from downward price movement), on the securities lending and equity markets, here on the ASX and globally.

Such work has directly led the British government to undertake a review and seriously consider changing its short selling rules with similar considerations being seen here in Australia and the US.

On China too, McKenzie argued strongly that Australian investors needed to accept that the mining boom was well and truly over but that new and more exciting investment and trade opportunities would present themselves but not in such explicitly visible ways, as before.

Professor McKenzie, ProDean at RMIT, the University of Sydney and most recently the University of Liverpool (Britain), taught literally hundreds of thousands of aspiring finance students over 20 years. He was admired, greatly liked and highly respected by literally all who met him.

To everyone's loss, Michael died earlier this week in a sporting accident in Britain. He is survived by his wife and a newborn daughter whom he loved more than life itself. He was the backbone of the Larkin Group Advisory Board, he was my mentor and my best friend.

There are no words to be found that convey Australia's great loss.

But rather than mourn, please allow us this week to share with you the pearls of wisdom and acumen that Michael generously shared with us.

His contribution has been phenomenal and his insights profound and if there was ever a time to be proud of being an Australian and the impressive talents that we harbour, allow today to be one of those days. Goodbye my friend and thank you.

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