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Edited by Andrew Ross Sorkin

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Peter L. Bernstein, Explainer of Stock Risks, Dies

Peter L. Bernstein, an economic historian and popularizer of the efficient market theory, which changed trading behavior on Wall Street, died Friday at NewYork-Presbyterian/Weill Cornell hospital, The New York Times's Louis Uchitelle writes. He was 90 and lived in Manhattan.

The cause was pneumonia contracted after he broke a hip, his family said.

Mr. Bernstein published most of his best-known books in the last 20 years of his life, including the best-selling "Against the Gods: The Remarkable Story of Risk" (John Wiley & Son) in 1996 and "Capital Ideas: The Improbable Origins of Modern Wall Street" (Free Press) in 1991.

In these books and in earlier work, he embraced and explained an investment strategy that came to be known as efficient market theory. Rather than just picking stocks because they seemed to be good bets, investors increasingly diversified their portfolios, using sophisticated mathematical equations, developed in academia, with the goal of measuring and managing risk.

"We went from naïve and haphazard stock-picking to looking at the whole portfolio in the context of how capital markets operate," William F. Sharpe, an economist at Stanford who received a Nobel Prize for his work developing the new strategy, told The Times. "Peter Bernstein's contribution was as an interpreter and communicator, and he certainly did popularize academic finance."

The hope was that with diversification, the stock market would be less likely to collapse, although Mr. Bernstein worried that a collapse could occur. He was an advocate of more market regulation to prevent one. But he also argued that the wealth and entrepreneurial energy generated by a rising stock market were worth the risk.

He made that point in 2005 in a semimonthly newsletter that he published for many years. Five days before his death, he republished the article in the same newsletter, Economics and Portfolio Strategy, adding a prologue in which he said, "With hindsight, most readers today would find our position in 2005 to have been a prescription for tragedy."

Then, quoting the Alfred Lord Tennyson line, " 'Tis better to have loved and lost than never to have loved at all," he concluded: "There was wisdom in Tennyson's words. Who can say he was wrong beyond debate? That would be a sorry world indeed."

Mr. Bernstein was the founder, in 1973, of **Peter L. Bernstein Inc.**, which published his newsletter and also had as clients wealthy families and foundations, helping them manage their wealth. A year later, he founded the Journal of Portfolio Management, a scholarly journal that brought traders and academics into communication with each other as they developed efficient market theory.

They did so, in part, because more and more Americans held stock, mainly through mutual and pension funds. Picking stocks with a broker no longer met most people's needs.

"As institutions and professional managers became the principal players, innovation was inevitable," Mr. Bernstein wrote in "Capital Ideas," his best-known book on efficient market theory. "But innovation must be preceded by theory."

In the last 25 years of Mr. Bernstein's life, nearly all his work focused on markets. But he had cast a broader net earlier, particularly in his writings with the late Robert L. Heilbroner, a historian and the author of a classic economics book, "The Worldly Philosophers."

Mr. Bernstein and Mr. Heilbroner, both New Yorkers, were lifelong friends. They met in first grade at the Ethical Culture School and moved on together to Horace Mann Academy and then Harvard, graduating in 1940 with degrees in economics. For 25 years, until Mr. Heilbroner's death in 2005, they made a point of having lunch together on the day before Christmas.

Like many others of their era, they were Keynesians, and they argued that public spending was necessary for a healthy market economy. They also argued that government's role in the economy should not have been curtailed as President Ronald Reagan sought to do in the 1980s, when he argued that the deficit was too large to maintain public spending. It was not too large, they said, as a percentage of the nation's economic output.

Peter Lewyn Bernstein was born in Manhattan on Jan. 22, 1919, a son of Allen and Irma Lewyn Bernstein. After graduating from Harvard magna cum laude, and after a year as an economist at the Federal Reserve Bank in New York — working for a Harvard professor who had gone to the Fed — he spent World War II as an officer in the Office of Strategic Services, the C.I.A.'s predecessor, in London.

While in Europe, he married the former Shirley Dowd, an American working as a secretary for the military. She died in 1971. The couple was childless. In 1972, Mr. Bernstein married a widow, Barbara L. Soskin, who took his last name. She survives, as does a stepgrandson, Peter Brodsky of Dallas, from Mrs. Bernstein's first marriage, and three stepgreat-grandchildren.

After the war, Mr. Bernstein taught at Williams College and then became a loan officer in a commercial bank in New York, learning about risk, he later explained, as he assessed the creditworthiness of the borrowers.

Family pressure led him to Wall Street. After his father died in 1951, the family insisted that he take control of the father's business, **Bernstein-Macaulay**, a wealth management firm. It was sold in 1967 and Mr. Bernstein stayed on as manager until 1973, having agreed to do so.

But he had already immersed himself in writing and scholarship, and from then on he focused on markets and risk, with occasional digressions. One of those was “Wedding of the Waters: The Erie Canal and the Making of a Great Nation” (W.W. Norton, 2005), in which he returned to public works spending.

“Without the gritty determination of a small group of men convinced of the prospect of a great nation,” he wrote, “the Erie Canal would not have been built and the Western territories would in all likelihood have broken away.”

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Peter L. Bernstein, Explainer of Risks of Stocks, Dies at 90

By LOUIS UCHITELLE
Published: June 7, 2009

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The New York Times, undated

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