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VENICE
FORUM

Long-Term Investors Club
Venice Forum

Towards a Sustainable Future: The Role of Long-Term Investment

Thursday 28 October and Friday 29 October 2010
Venice, Island of San Clemente

Zvi BODIE
Boston University

“Short-term bias in financial markets”



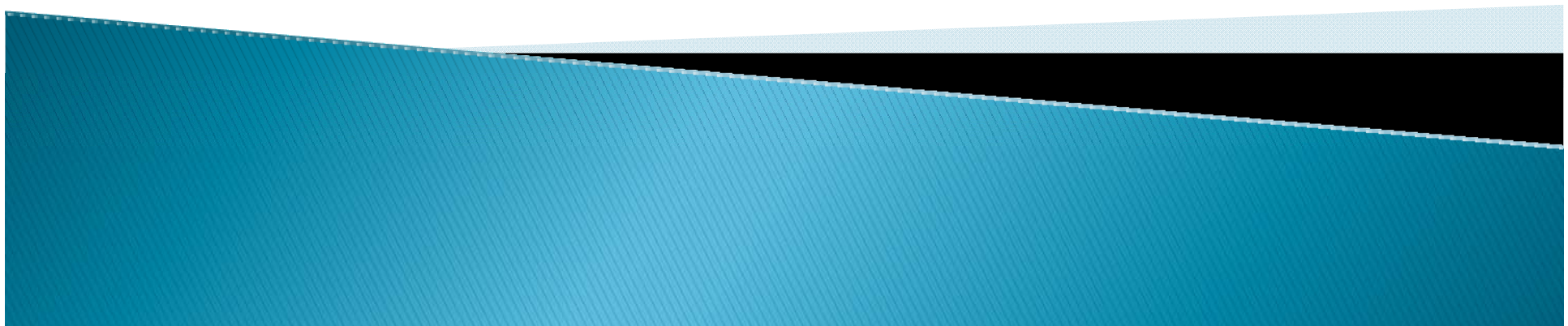
Club
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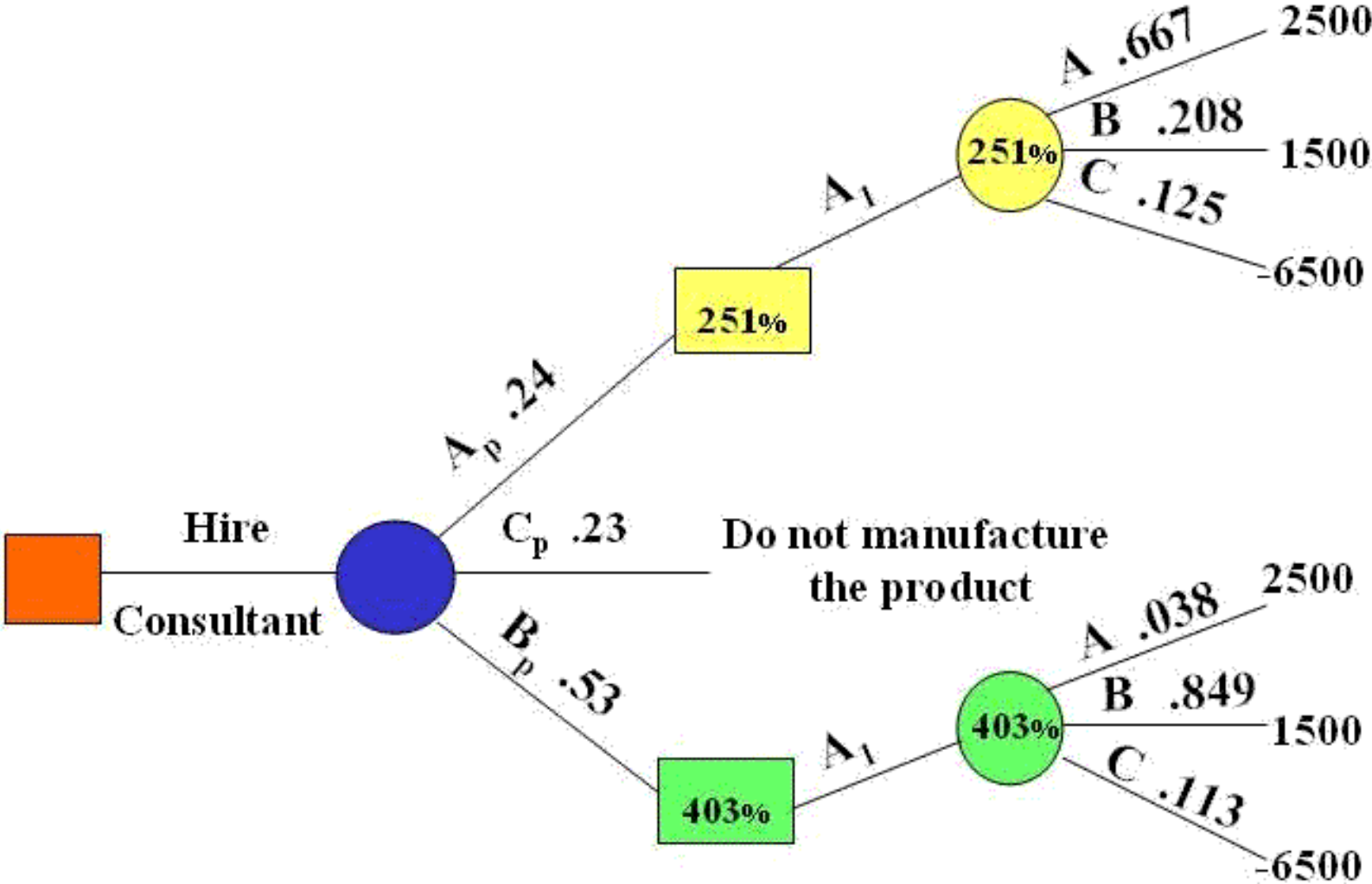
On Long-Term Investment Goals and Short-Run Decisions

Zvi Bodie

October 28, 2011

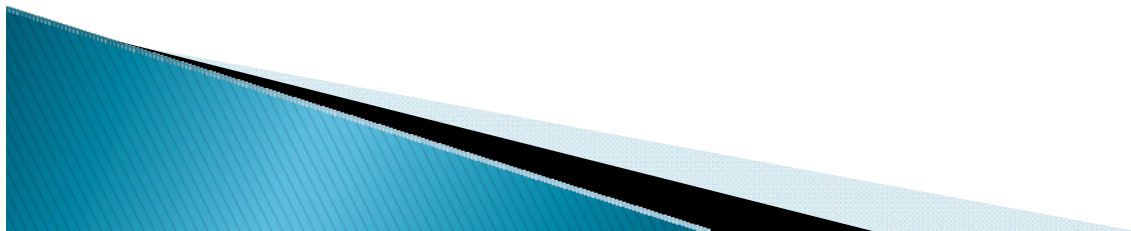


Rational Planning Requires Consistency Between Long-Term Goals and Short-Run Decisions



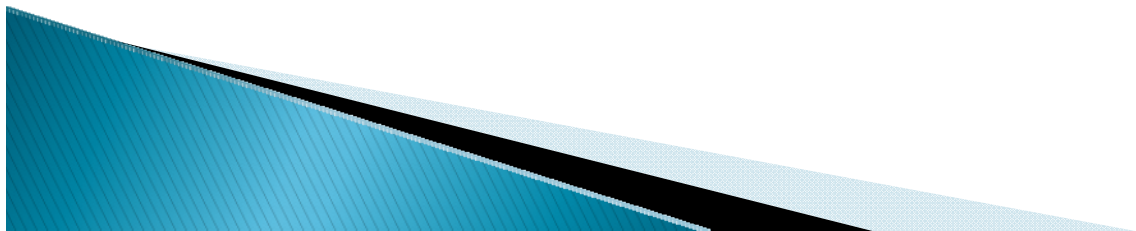
Infrastructure Investment

- ▶ Basic facilities needed for the functioning of a society, such as transportation and communications systems, water and power lines, and public institutions including schools, post offices, and prisons.
- ▶ Even when the funding and control is by private-sector entity, government needs to authorize plans, approve impact studies, change regulations, exercise eminent domain, etc.



Financing with Retirement Funds

- ▶ Infrastructure investments are highly illiquid and long-lived. They are therefore particularly well suited to financing by institutions with the longest time horizons and the least need for liquidity: pension and retirement funds.
- ▶ The main problem with these investments is their riskiness, which is not necessarily well matched to the risk desired by pension beneficiaries.



Solution to the Mismatch Problem

- ▶ Transfer the mismatch risks to other counterparties, both foreign and domestic, through the use of financial contracts such as swaps and other derivative overlays.

