

Think Wealth Visionaries – Myron Scholes

Lavanya Chari:

Welcome, everyone. I am Lavanya Chari.

It is my absolute pleasure to welcome Myron Scholes, a true legend in the world of finance. He earned the Nobel Prize for his groundbreaking work in developing the Black-Scholes model, a revolutionary framework for valuing options and managing financial risk.

Myron, a huge thank you for joining us today.

So, let's start with the first question. We live in uncertain times, and many investors instinctively think about volatility as a danger sign. But you have made reference to the concept of "good volatility". Can you tell us what do you mean by that?

Myron Scholes:

I think most investors worry about downside volatility. They don't worry about upside volatility. The good results. They like good results. In my view, the practical focus for investors is to prioritise downside risk management rather than treating all volatility as uniformly negative. We are in a low-volatility phase now in markets around the world, with correlations among equities being low and market risk premiums being correspondingly lower. In a high-volatility world, which is high downside risk, potential rewards are excellent, and risks are higher. Investors need to worry, however, about leaving a low-volatility phase and progressing to a high-volatility or a higher downside risk phase.

Lavanya Chari:

Now, switching gears a little bit.

After all the surprises we've had in 2025, why do you feel investors have kept a risk-on approach for so long? It has surprised many of our clients. And do you think the market has learned to live with uncertainty for extended periods of time?

Myron Scholes:

When we think about risk, we always overestimate the risk of the more recent period and down weight the risks of historical periods. And we can compare risk currently with risk historically, and it turns out that we have had very minor ups and downs over the year. And we've had a Goldilocks scenario. Inflation has come down and keeps coming

down. Investors need to worry about moving from a low-risk to a high-risk phase caused by unknown shocks.

Lavanya Chari:

Myron, you've guided large institutions for decades.

What are some evergreen strategies that our individual investors can use to better manage their portfolios during these volatile times?

Myron Scholes:

The two areas that I look at are diversification and portfolio risk decisions. We know that compound returns are what we are interested in as investors. And when we take excess volatility by lack of diversification, we are not compensated for that excess volatility and that reduces compound returns. Assessing potential losses and running stress test scenarios are very important to investors.

What happens if there's a shock? Are we forced to liquidate as investors? So basically, the two evergreen approaches that I look at are diversification, how to garner diversification. And two, how to plan how much safe assets to hold and how many risky assets to hold to be able to weather correlation shocks, when markets spike and you're forced to reduce risk.

Lavanya Chari:

And in today's economic landscape, do you think the same investment approach applies for both emerging markets and developed markets?

Myron Scholes:

Global liquidity or valuation shocks have a larger effect on emerging markets because they tend to be more leveraged. Some of the premium for investing in emerging markets arises because of the disproportionate effects of drawdowns on valuation, if there's a global shock that occurs.

Lavanya Chari:

I have a final question for you, Myron.

What are the biggest challenges for investors today in assessing risks?

Myron Scholes:

You see, the interesting thing is, how much risk we as investors have to estimate? Right now, we spend too much time thinking about risk as static or unchanging or not measurable.

We have to think about how we adjust the risk of our portfolio depending on more current opportunities. And we know if you can manage your risk, in addition, you will be able to enhance your compound return, not your average return. And compounding is what we as investors are all interested in

Lavanya Chari:

Absolutely. Myron, a huge thank you for joining us today

Myron Scholes:

Thank you.