
THE TREYNOR CAPITAL ASSET PRICING MODEL

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History generally accords the development of the single-period, discrete-time Capital Asset Pricing Model (CAPM) to the works of Sharpe (1964), Lintner (1965a,b) and Mossin (1966). We explore the early work of another notable financial economist, Jack L. Treynor, who also deserves credit for the original Capital Asset Pricing Model because of his revolutionary manuscripts—“Market Value, Time, and Risk”, Treynor (1961), and “Toward a Theory of Market Value of Risky Assets”, Treynor (1962)—which were circulated during the 1960s in mimeographed draft form but have never been published in an academic or practitioner journal. Mr. Treynor’s early work appears to have predated and anticipated Sharpe (1964), Lintner (1965a,b) and Mossin (1966). However, while financial economists initially credited Mr. Treynor for his innovation, the Treynor CAPM has not enjoyed a broad public reach. This, apparently, is the reason Mr. Treynor is not consistently recognized as one of the primary architects of the CAPM.



1 Introduction

In 1981 Fischer Black wrote an open letter to Jack Treynor, whose 13-year tenure as the editor of the *Financial Analysts Journal* was then coming to a close; in his letter, Dr. Black stated, “You developed the capital asset pricing model before anyone

else.”¹ The present paper investigates this assertion and concludes that, like so many of Fischer Black’s other beliefs, it seems to be accurate.

Popular history generally accords the initial development of the Capital Asset Pricing Model (CAPM) to the works of Sharpe (1964), Lintner (1965a,b), and Mossin (1966).² After a decade of academic attempts, the most frequently cited likely being Black *et al.* (1972) and Fama and MacBeth (1973), to substantiate or refute the validity of the CAPM as a positive economic model, Roll (1977) demonstrated that, since the “market portfolio” specified by the model is immeasurable, the CAPM can never be empirically tested conclusively. Nevertheless, the CAPM continues to inspire theoretical and

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