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# Why I Shall Miss Merton Miller

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Merton Miller's death received the proper notices due a winner of the Nobel Prize, but these reports emphasize the importance of his intellectual contributions rather than his significance as a human being. Nobody gives out Nobel Prizes for being a superior member of the human race, but Miller would surely have been a laureate if someone had ever decided to create such a prize.

Quite aside from the extraordinary insights gained from Modigliani-Miller, we owe Merton Miller a deep debt of gratitude for his efforts to promote the careers of young scholars whose little-noted innovations would in time rock the world of finance. Works at the core of modern investment theory might still be gathering dust somewhere—or might not even have been created—without his unstinting and unselfish cooperation.

In 1959, he persuaded Franco Modigliani to look at the early draft of a paper by an unknown economist named Jack Treynor, who had laid out the basic principles of capital asset pricing knowledge without any awareness of what William Sharpe, John Lintner, or Jan Mossin were up to. Modigliani took Treynor on as a student, and would ultimately suggest the title of the paper: "Toward a Theory of Market Value of Risky Assets." In 1962, Miller introduced Myron Scholes to financial theory and encouraged him to enter the Ph.D. program at Chicago. In 1964, he encouraged the novice professor Eugene Fama to "just teach what is not being taught." Fama introduced his students at Chicago to Markowitz's mean/variance theory at a time when few people were taking any notice of this seminal work.

In 1961, William Sharpe, then at the University of Washington, completed his paper, "Capital Asset Prices: A Theory of Market Equilibrium Under Conditions of Risk," and eagerly awaited the reception he was convinced his *opus magnum* warranted. Nothing happened. "The rest of the world was just out there somewhere," he recalls. Miller was instrumental in taking Sharpe to the Quadrangle Club in Chicago, where he could present his ideas to faculty members like Miller, Lorie, and Fama. The invitation led to an appointment to join the Chicago faculty, and Sharpe and his theories were on their way.

Miller's role in launching the Black-Scholes-Merton option pricing model was even more determining. In October 1970, the three young scholars had completed their work, and began the search for a journal that would publish it. "A Theoretical Valuation Formula for Options, Warrants, and Other Securities"—subsequently given the more palatable title of "The Pricing of Options and Corporate Liabilities"—was promptly rejected by Chicago's *Journal of Political Economy* and then by Harvard's *Review of Economics and Statistics.* Neither journal even sent the paper out for review. Miller, joined by Fama, proceeded to twist the arm of the editor of the *Journal of Political Economy* to publish the paper, which finally appeared in the issue of May/June 1973, two and a half years after the original submission. Frank Fabozzi and I can only hope that we never let a fish that big get away from *The Journal of Portfolio Management* just because its material is totally unfamiliar to us.

Miller never lost his zest for intellectual adventure, the satisfaction of applying theory to the resolution of practical problems, or the sheer fun of debate with people brave enough to disagree with him. Although cancer was taking its toll, he was actively at work and making speeches until almost the very end. Just last year, this Journal had the honor of carrying two fine articles by Miller: "The Derivatives Revolution After Thirty Years," which appeared in our special 25th anniversary issue of May 1999 on derivatives and risk management, and "A History of Finance," which we published in the Summer 1999 issue.

Shall we ever see his like again?