A man dies and leaves an estate of $200 and three creditors. Creditors: A claims $100, B claims $200, and C claims $300.

You are the judge. How do you allocate?

More important than the numbers: what is your algorithm?

Proportional seems obvious. A gets $33, B gets $67, and C gets $100.

Maimonides proposed something different. Everyone gets $67.

Why? We argue it is because:
1. Smaller debts are more reliable
2. Smaller debts are more sensitive to the recovery
3. Smaller debts can continue to be accrued

Empirically, Maimonides Risk Parity outperforms Regular Risk Parity.