Abstract: In this paper, we explore a dynamic theory of investment and costly managerial turnover given agency conflicts between the firm manager and investors. We incorporate the possibility of the successive replacement of managers until the firm is finally liquidated, and develop a continuous-time agency model with the q-theory of investment. We derive the dynamic variations of average q, marginal q, and the optimal investment—capital ratio surrounding manager turnover. Furthermore, we also indicate that the firm's optimal replacement/ retention decision becomes more permissive with the frequency of the replacement of managers. Our theoretical findings yield empirical implications for the joint dynamics of investment and CEO turnover policy, which are consistent with evidence provided by the existing empirical literature, and provide novel testable hypotheses.