the reading room

investment titans - investment insights from the minds that move wall street

By Jonathan Burton
McGraw-Hill
278 pages

review rating

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This is a timeless contribution to the body of serious investment writing. Burton is a respected financial journalist and started his “Leaders in Finance” articles in the US Dow Jones Asset Management journal in 1997. The concept was simple: hold in depth question and answer interviews with the pioneers of finance and investment theory, sift out the key issues from their ground-breaking work, and relate this to the equity market. Importantly, for the reader, this was to be done in lay terms, in order to make “complex subjects accessible to people who might not have an MBA.” And, on this latter point, Burton has succeeded admirably, from which it follows that this book will be of great value to most investors.

The book employs that infuriating habit of many US texts, of not stating in the preface or introduction any publication date. However, the copyright shows 2001, and I first read this book in February 2001. Thus, it is reasonable, from the text, to assume that completion was circa early 2000 – close to the bubble burst of March that year. This point is of interest, as the reader today, or in years hence, will still gain greatly from the book’s observations and contentions, and the fact that they may be placed in that tumultuous 1997/2000 period will only go to enforce much of the wisdom buried in this book.

Burton interviewed the who’s who of investment theory for his Asset Management papers, but sadly these are not all included in the text. Thus, due to the modest size of the work, we miss out on the likes of: Burton Malkiel (see his book this web site); Roger Ibbotson; Martin Leibowitz; and Eugene Fama. If there is any criticism, it is that another 200 pages should have been added to include these persons. That said, the fare is hardly restricted, and indeed includes Nobel Laureates and financial pioneers:

1. Harry Markowitz, the father of modern portfolio theory and the efficient frontier – how holding a basket of unrelated investments lowers portfolio volatility, and why diversifications does indeed provide a form of free lunch
2. Paul Samuelson, professor emeritus of economics at MIT who takes issue with the contention that stocks are riskless over the long term. Some homely recommendations for private investors, eg not to spend too much time monitoring your investments, as: “That will just tempt you to pull up the plants and see how the roots are doing, and that’s very bad for roots.”
3. Jeremy Siegel of Wharton, who takes the opposite tack by championing the equity risk premium, and who delves closely into historical data to justify this. Yes, he says, over 20 years, stocks can be less risky than bonds
4. John C. Bogle (see his book this web site), the founder of Vanguard, and the “iconoclastic fiduciary” who has championed passive, low cost indexing. Bogle deprecates many new market theories and has seen too many bright ideas come and go over his lifetime in the market. He is the ultimate, indefatigable proponent of the efficient market hypothesis
5. Joseph Lakonishok, a proponent of value investing, and active stock picking to identify good value stocks – c/f the factor screening of Dimensional
6. Richard Thaler, the leading voice in behavioural finance, for Thaler believes that psychology and human behaviour can dominate stock prices – and post March 2000, who can argue against that?
7. Gary Brinson, of UBS on the globalisation of stocks and cross-border stock picking by sectors or even bottom up
8. Peter Bernstein, an acclaimed author and counsellor, who addresses many of the sensitive practical issues for private investors – with sobering observations on the “long run”, as in the case of stock performance, this might be the very long run; “it’s not necessarily somebody’s adult life.”
9. And finally, William Sharpe, who invented the CAPM (capital asset pricing model) and the “Sharpe Ratio” – including an interesting digression into Sharpe’s efforts to democratise finance through his website, called Financial Engines. However, the CAPM debate has moved on a good deal from these discussions.

Burton completes the interview text with an Epilogue, in which he draws disparate threads together and produces an incisive and punchy synopsis for the reader. The approach is clearly Q and A throughout the book, and yet it is not absolutely clear whether the commentary is a precise replication of words from the interviewee – it is only clearly so when bold font inserts are provided. This does not seem to matter, and perhaps allows the book to read with a consistency and uniform style, and that aids digestion.

This is an informative, entertaining and easy to read book, which can easily be completed over a weekend. It is full of proven theories, and highly practical observations from those with more experience and learning than almost any private investor will ever enjoy in a lifetime of investing. It follows that one rainy day, or a weekend read, would be a sensible investment of time.

Sure, there are always a new flood of interesting theories and ideas, but this book contains 80% of the foundations, which are as solid to today as they were in 2000.

MARTIN EARP
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