

the reading room investment analysis & portfolio management

Seventh Edition,
By Frank Reilly & Keith Brown
Thomson, South-Western,
1162 pages

review rating



If there were such a thing as finance coffee table books, this work would be a leading contender. When flying, it would be best not to incur excess baggage by packing the book within check-in luggage; rather it should be taken as hand-baggage, so that its 2.5 Kilograms may go unnoticed. Including the preface, acknowledgements, appendices, glossary and index it holds some 1,300 pages.

The authors, Professors Frank Reilly and Keith Brown are both US PhD academics holding incredibly solid credentials and high status. Importantly, as is the case with many finance academics in the US these days, they also hold, or have held, senior positions in the finance industry - in the case of Professor Brown, he is the President and CEO of The MBA Investment Fund (privately funded investment company managed by graduate students at the University of Texas), and is the co-founder and senior partner of Fulcrum Financial Group, a portfolio management and investment advisory firm. This makes it all the more incredible, that notwithstanding its quantity, this book has two weaknesses: it lacks depth in many areas, and it is not overly practical. Perhaps this is unduly harsh, but when a book makes the claim to be the "most comprehensive investment textbook available", and is designed to cover the CFA study program ("CFA" icons are sprinkled throughout the text), the reader opens this magnificently bound volume with considerable expectation.

This seventh edition does certainly provide a comprehensive academic overview of virtually every facet and area within investment and portfolio management. It is a modern reference tool, where one can locate introductory commentary and then move to (eg, through copious footnote references) further source material and papers. However, it does not self-contain, in any area that I could readily identify, any definitive practical text, particularly one that takes a position or a contention - as does Bob Litterman's (et al) Modern Investment Management, reviewed in this web site. The Litterman book is rated so highly because of its glaringly practical relevance and the hands-on experience of the several authors - each one being an expert in the designated niche area covered within the book. Take as an example Chapter 16 of this seventh edition on Technical Analysis. Although there is mention of the challenges to trading under technical rules (ie, charting) and indicators, there is no firm view expressed on the utility or application of this somewhat dubious art - see comments by Burton Malkeil as recounted by the review, in this web site, of his A Random Walk Down Wall Street. Rather, there is a potted exposition of the theory and arguments, of the relevance of volume and resistance levels and then mention of the tenuous conclusions that might be drawn from such indicators. Finally, as with most other chapters, at the close there are helpful references to internet sites which relate to technical analysis (source data/charts, exposition, software ...etc), some questions and answers, and a wealth of references. But, the student or private

investor, would be ill advised to embark on managing real money with technical analysis, after simply reading this Chapter 16.

The book is divided logically into seven parts that span the full rubric of investment and portfolio management, and it is written from an international perspective - although from a US centric base. For the financial adviser there is an excellent opening discussion of asset allocation, risk, and the need to address client issues within a "policy statement" - what used to be called a financial plan, which has now transmogrified into the "statement of advice". Here is to be found useful historical data from Ibbotson Associates, for 1926-2001 (plus references to the Ibbotson's web site), providing compound annual returns for the major asset classes on a pre-tax nominal, post-tax and post-tax real basis. However, after this introduction to the incredible impact that tax can have upon returns, there is scant analysis of or reference to tax impact in the remainder of the text. For example, in Chapter 17 dealing with Equity Portfolio Management Strategies, and the passive versus active debate, there is virtually nil discussion of the tax impact of active management and fund turnover (eg, pages 658 to 661, where one would expect to find it) - and, as with most other areas, there is no concluded view on the competing merits of passive (incl. ETFs) over active management. This is rather surprising when there is a vast amount of material available on tax and funds management in the US. Further, there is no cross referencing to other areas within the text that shed light on the shortfalls of active management, eg the Chapter 17 discussion could easily have been linked to pages 1,095 et seq, of Chapter 25 dealing with analysis of overall portfolio performance. There one will find studies that divulge the dreadful track record of US active equity management after fees/costs - but not tax. But, under the heading "Ethics and Regulation in the Professional Asset Management Industry" in Chapter 25, one will not find any comment on the US pricing/trading scandals of the early 2000s - perhaps due to the implicit September 2002 close date - cited in Acknowledgements, page xvi.

If you wish to have a compressive compendium or reference work on the shelf, where you will find just about anything related to investment, and you have strong shelves, then this work deserves a slot. You will be able to quickly locate: tracking error, the Jensen measure, EMH (efficient market hypothesis), information ratio, tactical asset allocation, multi-factor models, geometric mean calculation and attribution analysis - and countless other concepts, rules and theorems. So used, the book has undoubted value for the Australian investor. However, as a practical aid or guide to personal investment that will help you decide what to do, it has more limited value, and for this reason, and others, it is rated 5.

MARTIN EARP
Noosa, Christmas 2006