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## Book Review: Larry Swedroe's 2009 Reading Recap

**Overview:** Being an educated investor means seeking information from a number of different sources, including various authors. Larry Swedroe, financial author and director of research for Buckingham Asset Management, reads dozens of books each year and wanted to share his thoughts on some recently published books on investing. These were first published on his *Wise Investing* blog on CBS MoneyWatch: <http://moneywatch.bnet.com/investing/blog/wise-investing>.

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### **The Little Book of Safe Money**

There are very few in the financial media whose material I would consider recommended reading. *The Wall Street Journal* columnist Jason Zweig is one of them, and his new book *The Little Book of Safe Money* is one you should consider.

His latest work adds to his reputation for writing books that not only provide important insights into the winning investment strategy, but are also good reads. This little book is filled with sage counsel from which even sophisticated investors can benefit. Among the pearls of wisdom are three commandments Zweig put in biblical language to emphasize their importance.

- Thou shalt take no risk that thou needst not take.
- Thou shalt take no risk that is not most certain to reward thee for taking it.
- Thou shalt put no money at risk that thou canst not afford to lose.

Zweig shows you how to achieve your financial goals while avoiding the pitfalls most investors fall prey to. His advice includes:

- Avoid putting your human capital and your financial capital in the same basket, meaning don't hold large positions in your employer's stock.
- Own TIPS to fend off inflation.
- Avoid "newfangled" securities that promise "higher yield at low risk," "safety with more income" or "returns better than cash with no risk."
- Don't stretch for yield with bonds.
- Quoting Shelby Cullom Davis: "You make most of your money in a bear market; you just don't know it at the time."
- Avoid leveraged and inverse ETFs.

His book also provides advice on how to avoid many of the behavioral mistakes investors keep repeating. As William Bernstein, who wrote the foreword, put it: "Jason Zweig knows your financial demons, where they live, why they're making you poor, and how you can beat them."

### **The Little Book of Main Street Money**

Another writer whose material I hold in high regard is Jonathan Clements, former columnist for *The Wall Street Journal*. He was one of the few journalists who actually had investors' interests at heart. (The rest write about the noise, or what Jane Bryant Quinn called "investment porn.") I considered his weekly column a must-read.

The same could be said of his new book, *The Little Book of Main Street Money*. It's only little in size. It is giant in terms of the number of pearls of wisdom that it contains; pearls not limited to investing, but finance in general and life as well.

I highly recommend this book especially for those just beginning their financial journey — it's a journey they shouldn't take without this book as a guide.

### **The Myth of the Rational Market**

Justin Fox's new book, *The Myth of the Rational Market*, is an entertaining history of the battle of ideas between those who believe markets are efficient and investors are rational, and those who believe that markets are inefficient and investors are irrational.

Fox does an excellent job of narrating the tale without taking sides. He introduces all the major players in the battle and fills the book with fascinating tales. While the book isn't for beginners, it's highly readable and never dull.

The basic message Fox delivers is that while markets are not perfectly efficient and investors are not always rational, the winning strategy is to invest as if they were — in other words, invest in index funds, not actively managed funds.

### **This Time Is Different**

The phrase "This time is different" has often been cited as the four most dangerous investing words in the English language. It's also the title of a new book on the history of financial crises. In *This Time Is Different*, Carmen Reinhart and Kenneth Rogoff make the compelling case that it's almost always not different. I put it somewhat differently: "The only thing you don't know about investing is the investment history you don't know."

The authors present eight centuries of financial folly, demonstrating the common theme that excessive debt accumulation regardless of the source — government, business or consumer — poses greater systemic risks than it seems at the time of the boom.

- Infusions of cash make a government look like it's providing greater growth than is actually being provided.
- Private-sector borrowing binges inflate housing and stock prices beyond sustainable levels and make banks seem more stable and profitable than they really are.
- Large-scale buildups of short-term debt make an economy vulnerable to crisis of confidence.

They demonstrate that financial crises are protracted affairs that share three characteristics:

- "Asset market collapses are deep and prolonged." Declines in real housing prices have averaged 35 percent and stretched over six years. Equity prices collapsed an average of 56 percent over a downturn lasting three-and-a-half years. Thus, the most recent crisis seems quite typical.

- “The aftermath of banking crises is associated with profound declines in output and employment.” Unemployment rises an average of 7 percent over cycles lasting more than four years on average. Output falls more than 9 percent over two-year periods.
- “The value of government debt tends to explode.” It surges an average of 86 percent in real terms. The main cause is not spending but a decline in revenues.

The bottom line is that the aftermath of crises has a deep and lasting effect on asset prices, output and employment. Unemployment increases and housing price declines have extended for five and six years, respectively. The authors also note that V-shaped recoveries in equity prices are far more common than V-shaped recoveries in real housing prices or unemployment. (2009 is certainly not an exception.) And finally, the authors noted that the global nature of the most recent crisis has made it more difficult for individual countries to grow their way out of the problem through higher exports or to smooth the consumption effects through foreign borrowing.

I recommend this book for those interested in the history of financial folly, though just about anyone could benefit from learning a little more about past financial crises. As Spanish philosopher Santayana stated: “Those who cannot remember the past are condemned to repeat it.”

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