Fortune Investor's Guide 2011

The best books on investing

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By David Warsh, contributor December 20, 2010: 12:00 PM ET

FORTUNE -- After nearly 20 years as Sunday business columnist at *The Boston Globe*, and another eight as proprietor of **Economic Principals** -- a site that covers the lives, times and ideas of economists -- I have seen my share of books offering investment advice. The most valuable, it seems to me, are those whose authors came up with a thesis about the markets early and then kept refining and updating their ideas during the incredible expansion of financial markets that has occurred since 1975. Three of these, whose first editions appeared in 1982, 1978 and 1973, respectively, are already classics. The fourth seems destined to achieve that status.

Your Money and Your Life: A Lifetime Approach to Money Management
By Robert Z. Aliber.

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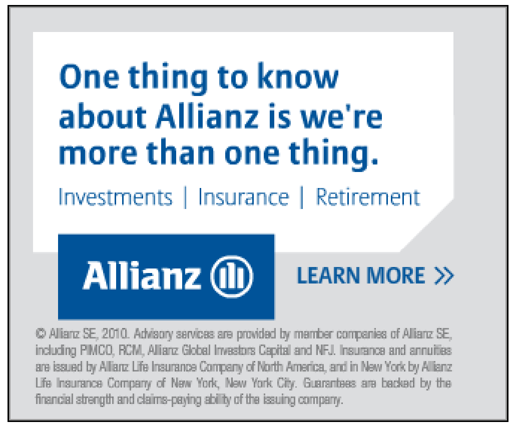
I am a great fan of the walk-around-the-pond-with-a-companionable-friend format. This new version of a 1982 book began when the benefits office at the University of Chicago asked Aliber to speak to retiring faculty about financial planning.

He discovered that many of them (at least those not involved in serial marriages) were millionaires, the result of generous pensions, rising real estate prices and the bull

Right Now

Average 2010 tax refund: $3,003
Dow and S&P close higher for 7th week
Larry Summers: More jobs are coming



Hot List

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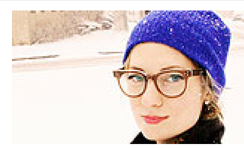

IBM's Jeopardy supercomputer
IBM's supercomputer Watson handily beat two former Jeopardy champs in a practice round.
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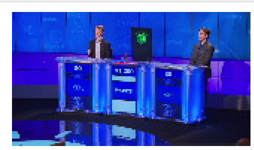

The 21st century's biggest chumps?
The last decade has been heaven for buyers of new communication gadgets and services - and hell for the telecom industry's investors.
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market in stocks. "After my presentation, I would get calls -- let's have lunch," he writes. This book collects a couple of dozen such conversations and organizes them under three headings: decisions involving expenditure, investment and financial planning. Wondering whether to buy a new car or one that has been slightly used? Whether to go for public or private education? To rent or buy? To load up on insurance? To annuitize or not? Curious about how to construct a bond ladder? Anxious about senior health care? Aliber is full of wisdom on all these counts and more.

Retired now after 39 years as a professor at Chicago's Booth School of Business, he is author of *The International Money Game*, as well as the inheritor who has turned Charles P. Kindleberger's classic *Manias, Panics and Crashes: A History of Financial Crises* into an ongoing text.

Manias, Panics and Crashes: A History of Financial Crises
By Charles P. Kindleberger

This book first appeared in 1978. The author, professor of international economics at the Massachusetts Institute of Technology, wanted to remind his readers about a phenomenon that the efficient markets craze of the 1970s deemed impossible: "bubbles," meaning price changes that would grow large before they inevitably burst. He did so by illustrating the '70s counter-fad -- Hyman Minsky's mathematical (and largely unfathomable) model of financial fragility -- with a wealth of historical examples dating all the way back to the Tulip manias of the Dutch Republic. "Some time in the next five years you may kick yourself nor not reading and re-reading *Manias, Panics and Crashes*," blurbed Nobel laureate Paul Samuelson. Kindleberger revised the book three times, then turned it over to Aliber, who has updated it twice, inevitably diluting Kindleberger's distinctive kinetic, astringent style as he incorpoated his own views.

A paperback version of the canonical fourth edition goes for nearly $50. The latest version, in which Aliber becomes the lead author, is due out this spring.

A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing
By Burton G. Malkiel.

It was Princeton University professor Malkiel who pioneered the reader-friendly walk format, starting in 1973. Then the idea that markets were so quick to incorporate the latest information in prices that there could be no exploitable trading strategy was new. This "efficient-markets hypothesis (EMH)" led directly to the proposition that you would do better buying and holding a basket of stocks representing the market as a whole than by investing in professionally-managed mutual funds. It was startling at the time; the first index fund had yet to appear.

Nearly 40 years later, the basic insight seems pretty well clear: most individual investors do better buying a piece of the overall market than by trying to outsmart it. In the opening pages of this tenth edition (now so thoroughly revised as to include a history of bubbles, a review of new investment technologies, and a guide to all kinds of investments and tax strategies), Malkiel lets the numbers make his case. If you had put $10,000 into an S&P 500 Index fund in 1969 and reinvested dividends you would have a portfolio worth $463,000 today, as opposed to the $258,000 return from an average actively-managed mutual fund. Even in the last 10 years you would have done well if you had followed Malkiel's injunction to regularly rebalance your portfolio. His suggested index fund portfolio for "aging baby boomers" (containing bonds, U.S. stocks and those of various other nations, and shares of real estate investment trusts) doubled during

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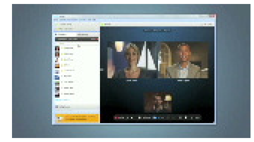

Tech Talk

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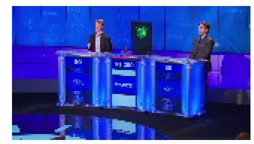

Help Desk

Meet the first baby boomer Kathleen Casy-Kirschling, born 12:00 am Jan. 1, 1946, says her generation will accept only small tweaks to programs like Social Security and Medicare.
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Markets

Market Movers | US Indices

Company	Price	Change	% Change
Citigroup Inc	5.13	0.09	1.79%
Bank of America Corp...	15.25	0.48	3.25%
Intel Corp	21.08	-0.21	-0.99%
JPMorgan Chase and C...	44.91	0.46	1.03%
Microsoft Corp	28.30	0.11	0.39%

Data as of Jan 14

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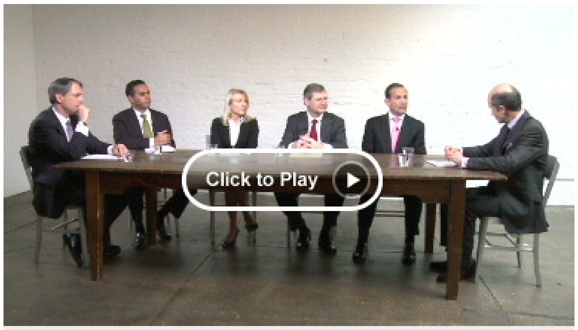
the years 2000-2010, while an index of U.S. stocks alone actually lost a little value.



To invest in the U.S. stocks, or not

The Evolution of Technical Analysis: Financial Prediction from Babylonian Tablets to Bloomberg Terminals
By Andrew W. Lo and Jasmine Hasanhodzic.

The search for patterns in market trading turns out to be one of the truly durable passions of humankind. Andrew Lo, a distinguished finance professor at the Massachusetts Institute of Technology, and Hasanhodzic, an MIT PhD in Electrical Engineering and Computer Science who builds quantitative investment strategies for Alpha Simplex Group, apparently had some time on their hands, because *Evolution of Technical Analysis* is a light-hearted yet thorough and penetrating tour of quantitative analysis of markets from Mesopotamian times to the high-tech present.

Technical analysis -- attempts to predict future prices by looking for patterns in the past -- has a bad reputation in modern economics, they note; many of its terms seem abstruse or outmoded: "It is easy to see how a discipline that involves eye-balling charts for patterns with names like 'head and shoulders' and 'cup with a handle' might seem at first blush more akin to astrology than science," they write. (Fundamental analysis, the alternative to technical analysis among investors, fares better in popular opinion because its reasoning is essentially economic.)

In fact, insights into human psychology have remained much the same from ancient Athens to Charles Dow, founder of Dow Jones, to today's "quants," who search for bargains in the form of various cognitive biases (overconfidence, overreaction, loss aversion, and herding, to name the most widely known). High-speed traders can accentuate the wizards' edge. Malkiel's obituary for technical analysis -- "under scientific scrutiny, chart-reading must share a pedestal with alchemy" -- was premature, they say. "As long as humans, not robots, make markets, bubbles and crashes will be a reality." And behavioral economics -- the logical extension of technical analysis -- offers some hope of damping the swings.

*David Warsh, a long-time newspaperman, moved to the web in 2002. You can subscribe to an early version of his weekly newsletter, **Economic Principals**.* ■

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