
BOOK REVIEW



Mark Kritzman, Senior Editor

GUIDE TO INVESTMENT STRATEGY: HOW TO UNDERSTAND MARKETS, RISK AND BEHAVIOUR

By Peter Stanyer (Bloomberg Press, 2/e, 2010)—publication date 6 January 2010.

(Reviewed by Elroy Dimson, London Business School, October 2009)

Few people realise that state pensions are a giant Ponzi scheme on which millions rely. To be secure in the future everybody needs to save, and if their savings are meaningful each saver needs a cogent investment strategy.

The subtitle of Peter Stanyer's book reveals his views on investment strategy. Strategy must be supported by an understanding of how markets move, how risk should be judged, and how investors behave. In this extensively revised second edition, Stanyer elegantly surveys the entire field of investment, with

valuable advice for individuals and investment professionals.

Global markets recently experienced one of the worst downturns ever. To better understand markets, long-term financial history has become a hot topic among investors and their advisors. It was therefore with great pleasure, and some pride, that I read through this volume. Stanyer interrogates the long-term, international dataset that my colleagues and I have compiled, and allows the past record of financial markets to enlighten us about recent events and to underpin informed judgements about the future.

Investors walk a tricky tightrope of risk and performance. If the investor chooses too little risk, she may fail to reach her goal. Too much risk and she may lose her balance, with potentially disastrous results. How should

an investor decide how much risk exposure is appropriate? For many advisors, the solution is to ask the client to indicate how much risk she can tolerate, and then to design a portfolio that meets her risk preferences.

But individuals are not usually investment experts. Furthermore, it is extremely hard to elicit a person's appetite for risk: what an investor says she wants is not necessarily what she really wants. Investors may be ill informed and their behaviour may be less than rational.

Individuals face an even tougher challenge than pension funds, endowments, and insurance companies. If a pension fund is in difficulty it can be closed and the plan sponsor asked to make additional contributions; a college endowment can limit student bursaries; an insurance company can reduce its payouts and dig into reserves. For many

institutions there are opportunities to mitigate poor investment performance.

In contrast, individual investors face fewer remedies for poor returns. They might wish to live as comfortably as possible, but it is not clear how to accomplish this objective. If the appropriate strategy for individuals is even more problematic than for financial institutions, how can one best help them?

Peter Stanyer's solution is to extend the investor's knowledge about relevant theory and evidence, and to accomplish this without resorting to complicated mathematics. The result is a clear exposition of the arguments for and against different investment approaches. The author is not

afraid to express a firm opinion based on his interpretation of current thinking. He presents valuable advice on how to construct a fixed income portfolio, how to think about liquidity, what quantum of risk is acceptable for different investors, and how to think about investment risk.

Whether the reader is interested in the big picture (Part 1 of the book) or wants to learn about individual asset categories (Part 2), there is something for everyone in this volume. It is comprehensive and moves at a cracking pace, but it is never forbidding or opaque. The surveys of each of the main asset classes provide a highly informative overview of all the key topics.

Stanyer discusses equities and risky debt, alternative assets like hedge funds and private equity, and tangible assets like property and artworks. Personally, I particularly enjoyed Chapter 12, on investing in emotional assets such as art and other collectibles.

Commendably, the statistics in this volume are completely current, and the graphics and tables are fully updated to 2009. In this concise book, Peter Stanyer guides us through the complexities of modern investing in a clearly written, easily understood guidebook. This volume will help you meet the challenge of investing for your future.