BLOG POST

Suggested Reading for the New Year Part 2
1/27/2020

To start the new year, we thought it would be interesting to provide suggested reading for our clients. What follows is the continuation of a list of book reviews that pertain to finance and investment, and other topics we find worthwhile. We've categorized the books as either technical (i.e. the content gets into the weeds a bit) or general (i.e. the content is suited for a broader audience). Enjoy!

When Genius Failed: The Rise and Fall of Long-Term Capital Management, by Roger Lowenstein, 2000
Category: Technical

This book is fairly technical, as it tells the story of a failed hedge fund in the go-go 1990s. It's a story of hubris gone horribly wrong. Long-Term Capital Management (LTCM) was a firm run by a group of highly talented investment professionals. Two of the principals were Nobel Laureates. The investment strategy was based on their academic research that the securities markets are perfectly rational and prices followed certain patterns. One of the principals, Myron Scholes, actually developed a formula for pricing options contracts.

The reader can gloss over much of the technical aspects of this book to get to the real point of the story: the markets can make even the smartest professionals look foolish. LTCM delivered stellar returns for much of its existence, and the heavy movers on Wall Street wanted a piece of the action. The principals at LTCM were aloof, even cocky in their belief that they ran an infallible hedge fund, and only the select few could participate in their success.

LTCM's fortunes changed quickly in 1998, when Russia defaulted on its debt obligations. LTCM had placed leveraged bets that quickly (in a matter of days) wiped out billions. The principals went from heroes to pariahs. The fund needed a bailout to avoid a market panic. Interestingly, the events of LTCM occurred almost 10 years before the financial crisis of 2008.

1929 The Great Crash: by John Kenneth Galbraith, 1997 (originally published in 1955)
Category: General

The book's introduction in the 1997 release is telling. Galbraith's story has been in print since 1955, but still remains in circulation. Why? Just when the book begins to recede into a distant memory, another episode (today, we call them "market disruption events") occurs to bring The Great Crash back into the public's conscience.

To quote the author in 1997, "there is now far more money flowing into the stock market than there is intelligence to guide it". Of course, we all now how the exuberance of the 1990s ended. The benchmark S&P 500 lost roughly half its value from 2000-2002. The author died in 2006, just ahead of the financial crisis of 2008.

While the details and timeline might change, the causes and effects of market bubbles really doesn't change. History might not repeat itself, but it sure does rhyme. The chapters of Galbraith's book begin with visions of boundless hope and optimism, to the twilight of illusion, to the aftermath, and finally cause and consequence.

Galbraith's story reads much like the more recent chronicles of the 2008-2009 great recession. Seems like some things never change.