

Market Sense and Nonsense: How the Markets Really Work (and How They Don't)

By Jack D. Schwager

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Market Sense and Nonsense: How the Markets Really Work (and How They Don't) By Jack D. Schwager

Bestselling author, Jack Schwager, challenges the assumptions at the core of investment theory and practice and exposes common investor mistakes, missteps, myths, and misreads

When it comes to investment models and theories of how markets work, convenience usually trumps reality. The simple fact is that many revered investment theories and market models are flatly wrong—that is, if we insist that they work in the real world. Unfounded assumptions, erroneous theories, unrealistic models, cognitive biases, emotional foibles, and unsubstantiated beliefs all combine to lead investors astray—professionals as well as novices. In this engaging new book, Jack Schwager, bestselling author of *Market Wizards* and *The New Market Wizards*, takes aim at the most perniciously pervasive academic precepts, money management canards, market myths and investor errors. Like so many ducks in a shooting gallery, Schwager picks them off, one at a time, revealing the truth about many of the fallacious assumptions, theories, and beliefs at the core of investment theory and practice.

- A compilation of the most insidious, fundamental investment errors the author has observed over his long and distinguished career in the markets
- Brings to light the fallacies underlying many widely held academic precepts, professional money management methodologies, and investment behaviors
- A sobering dose of real-world insight for investment professionals and a highly readable source of information and guidance for general readers interested in investment, trading, and finance
- Spans both traditional and alternative investment classes, covering both basic and advanced topics
- As in his best-selling *Market Wizard* series, Schwager manages the trick of covering material that is pertinent to professionals, yet writing in a style that is clear and accessible to the layman

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Editorial Review

Amazon.com Review

From the Author: "(Almost) Everything You Know About Investment Is Wrong"



Jack D. Schwager

When it comes to the markets, academics, professionals and novice investors have one thing in common: They all operate on assumptions that fail to hold up in the harsh light of reality. The following are a sampling of observations about how markets really work:

1. The market is not always right. The best opportunities arise when the market is most wrong.
2. Big price moves begin on fundamentals but end on emotion.
3. Past returns are not future returns. Past returns can be very misleading if there are reasons to believe that future market conditions are likely to be significantly different from those that shaped past returns.
4. The best-performing past investments often do worse than the worst-performing past investments in the future--and the future after all is where we all have to make our investment decisions.
5. The best time to initiate long-term investments in equities is after extended periods of underperformance.
6. Faulty risk measurement is worse than no risk measurement at all because it will lull investors into unwarranted complacency.
7. Volatility is frequently a poor proxy for risk. Many low volatility investments have high risk, while some high volatility investments have well-controlled risk.
8. The real risks are often invisible in the track record.
9. High past returns sometimes reflect excessive risk-taking in a favorable market environment rather than manager skill.
10. Return alone is a meaningless statistic because return can always be increased by increasing risk. Return/risk should be the primary performance metric.
11. Leverage alone tells you nothing about risk. Risk is a function of both the underlying portfolio and leverage. Leveraged portfolios can often be lower risk than unleveraged portfolios--it depends on the assets in the portfolio.

Review

Everybody, and I mean everybody who has an investment portfolio will profit from reading this book kudos to the author for offering the investing world an uncommonly worthwhile book. (forexpros.com, 12th Novemebr 2012) Mr Schwager s book starts off with plenty of sound, basic advice before expertly

demonstrating that a leveraged exchange traded fund is a dreadful investment because of its structure, being almost bound to disappoint (The Economist, January 2013) Full of common sense (Pensions World, February 2013)

From the Inside Flap

When it comes to investment models and theories of how markets work, convenience usually trumps reality. The simple fact is that many revered investment theories and market models are flatly wrong—that is, if we insist that they work in the real world. Unfounded assumptions, erroneous theories, unrealistic models, cognitive biases, emotional foibles, and unsubstantiated beliefs all combine to lead investors astray—professionals as well as novices.

In this engaging new book, Jack Schwager, bestselling author of the *Market Wizards* series, takes aim at some of the most pervasive market precepts, money management misconceptions, and irrational investor behaviors. From the theory of efficient markets to buying in up markets and selling in down markets, Schwager turns each misguided idea on its head, one at a time. Supported by a wealth of well-documented historical evidence and a healthy dose of common sense, he exposes the truth about the cherished assumptions and fallacious thinking at the core of some of the most respected investment theories and models and explores many common investor errors. In this book, you'll discover why:

- Expert opinion is NOT more reliable than the proverbial dart-throwing chimp
- The markets are NOT efficient
- Low volatility does NOT necessarily imply low risk, and high volatility does NOT necessarily imply high risk
- Market prices are NOT normally distributed
- Investing in equities when markets are doing well is NOT conducive to achieving above-average returns
- Concentrating on funds with the strongest record of returns is NOT a sound strategy
- Past returns are NOT a reliable indicator of future performance
- A hedge fund portfolio strategy is NOT riskier than a traditional portfolio approach
- VaR does NOT provide a good indication of worst-case risk
- Superior performance does NOT necessarily imply manager skill

But Schwager does much more than simply burst bubbles; he offers a sobering draught of real-world investment insight and guidance spanning both traditional and alternative investment classes. Drawing upon his years as an asset manager and trader, he shares priceless lessons on an array of investing topics, both basic and advanced, including portfolio management, risk assessment, investment selection, hedge fund investing, investment timing, and much more.

Market Sense and Nonsense is an indispensable source of real-world market wisdom and investing know-how for investors of every ilk.

Users Review

From reader reviews:

Brad Black:

The ability that you get from Market Sense and Nonsense: How the Markets Really Work (and How They Don't) will be the more deep you excavating the information that hide within the words the more you get serious about reading it. It doesn't mean that this book is hard to be aware of but Market Sense and

Nonsense: How the Markets Really Work (and How They Don't) giving you joy feeling of reading. The author conveys their point in selected way that can be understood by means of anyone who read that because the author of this publication is well-known enough. This book also makes your personal vocabulary increase well. That makes it easy to understand then can go along with you, both in printed or e-book style are available. We recommend you for having this specific Market Sense and Nonsense: How the Markets Really Work (and How They Don't) instantly.

Ena Clark:

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