

Book Reviews by Ian Robertson



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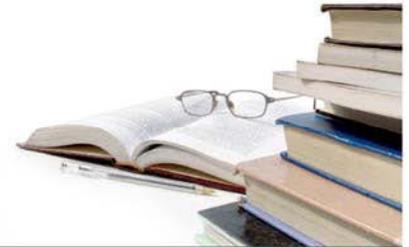
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Title: *The Age of Deleveraging*

Author: Gary Shilling

Publisher: Wiley (2011)

Reviewed: March 2012



There was a time when Ernest Hemingway, employed by the Toronto Star, was paid by the word for his writing. His economical style was honed at the paper, and he went on to become one of the twentieth century's greatest novelists. Gary Shilling, a seasoned economist and veteran writer is unfortunately much less thrifty with his prose, and his arguments and recommendations often end up adrift; the Old Man and the Sea of Words.

Rating:



Out of 5 Stars

While very accomplished and respected as an economist, Shilling is less well known publicly than many others in his field, and unfortunately he spends far too much time recounting his past predictions and past work. While the background and history are helpful and provide some context for today's economic predicament, and the reminders do make readers take note that perhaps this book's predictions should be heeded too, a better known and more confident writer would have breezed through this part in a chapter instead of the almost 150 pages it takes Shilling.

Shilling rightly pillories the usual suspects: financial institutions, politicians, regulators, lobby groups and other vested interests, often naming the alleged transgressors. The punches are quick and never pulled, and are woven throughout the narrative which spans decades. He also weaves numerous offhand but illuminating personal comments through the text. For example, in noting the excessive leverage of the investment banks just prior to the 2008 financial crisis, he recounts when he was with Merrill Lynch as its chief economist in the 1960s, and that Merrill didn't have an asset management business as it considered it a conflict of interest; a reminder how far the (relative) morals of Wall Street had slid in the pursuit of profits.

Among his many interesting statistics is the difference in consumer spending that results from a 10% rise in the value of consumers' homes versus the same rise in their investment portfolios (homes have twice the impact). There's also an excellent chapter presenting both sides of the Keynesian argument about the role of government in the economy, and the concluding stock picks and pans is a very interesting top down conclusion to the book.

Still, despite his interesting personal anecdotes, Shilling has the unfortunate trait of wearing his politics on his sleeve, which mars otherwise good analysis. "I doubt any serious economist other than an Obama loyalist ..." is typical. Further, he comes across as quite cranky, criticizing many but offering few solutions. He hypothesizes that rising leverage over the decades increased GDP by about 0.5% annually over its natural level, but then takes aim at government policies he acknowledges are designed to reign in the excesses and resultant instability. He seems to agree on the cause, disagree with the government solution, but offer just political rhetoric in response rather than his own economically sound alternative.

He also makes a few frustratingly basic mistakes, for example citing recent (2009) Chinese statistics and extrapolating a long term trend. Another more specific example is his citation that banks with \$10 billion or more in assets accounted for 80% of total bank assets in 2009 compared to only 67% 10 years earlier. Because we expect the size of banks to increase over time naturally, it's hard to know what to make of the statistic. The book also contains a few typos, though thankfully not too many to annoy.

The book's helpful content is too drawn out. While Shilling makes many sound arguments and is a personable writer, readers are advised just to skim the book, slowing only at the more interesting analytical sections and later at the Keynesian and stock pick chapters.