Book Reviews by Ian Robertson

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Investing for Generations

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Title: ***Global Investing: The Professional's Guide To The World Capital Markets***

Author: **Roger Ibbotson and Gary Brinson**

First Edition: **McGraw-Hill (1993)**

Reviewed: **September 2012**

Rating:
★★★
Out of 5 Stars

Roger Ibbotson and Gary Brinson have contributed much to the theory and practice of investment management, and this collaborative effort draws on both to deliver a comprehensive and clear survey of investment management. Readers will benefit from having some prior investment knowledge, but those with little background shouldn't be put off as jargon is kept to a minimum and the ample charts and tables support the text well.

Written in 1992, *Global Investing* surveys both the global marketplace and the rich theory driving professional investment decision-making. It presents the considerations and tradeoffs professional investors face, and like a textbook, it ends most sections with a summarizing conclusion.

Twenty years ago, this would have been both an excellent textbook and practitioner's guide, but with the addition of new theory and two decades of experience, it now comes up short. Similar to Jeremy Siegel's book *Stocks for the Long Run*, in which the central premise is "buy stocks, keep your time horizon long, and reap the rewards," and Burton Malkiel's book *A Random Walk Down Wall Street*, in which the central premise is "don't be fooled by Wall Street into believing you or they can predict or beat the markets, and instead use low cost indexes," this book too has a central premise: "finance theory can guide you to superior returns and lower portfolio risk, so follow what the professionals do."

Coincidentally, all three books were written or co-written by professors of finance at leading U.S. universities, and they suffer from the same theoretical faith that led Alan Greenspan to his trust in efficient markets and to his interest rate policies. There is no recognition of behavioural finance (see Daniel Kahneman) or inherent market instability (see Hyman Minsky). It turns out that "the long run" may be too long to be practical for many investors, that random walks may take long detours, and to borrow from Robbie Burns, that the best-laid theories o' mice an' men often go awry.

Global Investing has a second drawback due to the passage of time. Towards the book's end, the authors note that global integration is the next phase, and the 2008 financial crisis concluded this phase with extremely high correlation of not just geographic markets but also asset classes. The integration has now occurred, making much of the investment theory the book is based upon impractical for achieving superior returns with lower risk. MIT professor of finance Andrew Lo says that alpha becomes beta, or in plain English, theories or inefficiencies that produce outperformance become standard practice and adopted by all. What was once a roadmap to invest like the pros is now an explanation of why we all invest the way we do now.

A third, though less troublesome, shortcoming is that some of the emphasis and examples within the book are anachronistic. There is a detailed section on inflation, for example, and Japan's economy and markets – rather than Europe's or China's – are used in many examples. As well, fields such as venture capital have changed greatly over the past two decades (the book was written well before the Dot.com era), as have general expectations (13.5% is given as an expected market return!).

Extremely well-written but dated, *Global Investing* is worthwhile reading for those with an interest in finance theory and practice, and in seeing how much markets have evolved since 1992.