

# Contents

<b>Foreword</b>		<b>xi</b>
<b>Preface</b>		<b>xvii</b>
<b>Chapter 1</b>	<b>Lead Us Not into Temptation</b>	<b>1</b>
	May Reason Prevail	2
	Patience and Persistence	6
	The Dean of Wall Street Revisited	12
	The Investor's Dilemma	19
	It's a Numbers Game	20
	The Supremacy of Earnings	22
	"Stealth Compensation"	36
	Conclusion	42
<b>Chapter 2</b>	<b>Techno Babble, Techno Bubble</b>	<b>43</b>
	A Tale of Two Markets	45
	Back to the Future?	53
	Warren Buffett on the Stock Market	58
	Is the Internet the Answer?	65
	What's a Long-Term Investor to Do?	68
	Investment Redefined	69

<b>Chapter 3</b>	<b>“Pop!!”.com</b>	<b>75</b>
	Risk: No Longer an Afterthought	76
	Investment Strategy: Is It Time for Technology?	83
	Is There a Snowball Rolling Our Way, Gathering Mass and Speed?	87
	The Art/Science of Managing Risk	88
	Baby Boomers: Whither Goest Thou?	99
	The Internet and IPO Frenzy	100
	Fool’s Gold	101
	Goliaths Slain	102
<b>Chapter 4</b>	<b>Swimming against the Current</b>	<b>113</b>
	Prelude to Our Investment “Strategy”	116
	Interest Rates: It Had Better Be Uphill from Here	127
	The Power of Popular Delusions	131
	The Mind of Crowds	139
	Investment Consultants: The Great Middleman Myth	142
<b>Chapter 5</b>	<b>The “Greenspan Put” . . . Again</b>	<b>145</b>
	Investment Strategy	146
	The Reckoning	149
	Sober in the Morning	151
	Micro versus Macro	151
	The Margin-of-Safety Paradox	153
	Waiting Patiently for Those Hanging Curves	154
<b>Chapter 6</b>	<b>Only Fools Rush In</b>	<b>159</b>
	The Rogues Gallery, 2003 Vintage	160
	Making Progress in the Post-Bubble Environment	164
	How Did We Get Here in the First Place?	171
	The Apogee of the Mutual-Fund Boom	181
	The Great Abdication of Fiduciary Responsibility: The Defined-Contribution Plan	188
	Where the Buck Really Stops	192
<b>Chapter 7</b>	<b>Expanding Concern: A Bigger Bubble?</b>	<b>197</b>
	Maybe the Markets Are Not Random?	200
	A Short History of Financial Euphoria	218
	Fully Deluded Earnings: Penance (?) in the Cuff-Links Cooler	222
	Run for the Roses: Of Pawns, Guinea Pigs . . . and “Retail Investors”	231

	“Swing, You Bum!”	242
	Marathon Endurance	247
<b>Chapter 8</b>	<b>What History Teaches</b>	<b>253</b>
	Free Markets: Popular Delusions and the Madness of Crowds	254
	Aspiring to Rationality by Overcoming Heuristic Biases	257
	Today Is Not Tomorrow: Cycles and Differing “Opportunity Sets”	259
	Inverting the Traditional High-Risk/ High-Return Paradigm	260
	The Inevitability of Regression to the Mean	261
	There Are No Called Strikes in the Investment Ballgame	263
	Focus on the Important	264
	The Malevolent Mathematical Mystery of Modern Money Management (a.k.a. MPT)	264
	The Absurdity of the Collective Wisdom of Individual Irrationality	265
	Diversification and the Myth of Safety in Numbers	266
	The New-Era Error	268
<b>Chapter 9</b>	<b>Contagious Speculation</b>	<b>269</b>
	The Means to the End	271
	The Perfect Storm? Viewing the Vista through the Lens of History	272
	The Blossoming of the Financial Economy: The Cataclysm in the Creation of Credit	281
	Bubbles Are Indigenous to the Financial Economy	299
	If Housing Prices Roll Over	306
	A Remarkable Story of Risk Management—Run Amok	310
	The Perfect Storm Redux	325
	Capitalism: When “Financial” Overwhelms “Commercial”	329
	Minsky: A Prequel?	332
	The Evolving History of Economics and Finance: Reflections	334
<b>Chapter 10</b>	<b>The Tipping Point</b>	<b>339</b>
	Excerpt from Quarterly Capital Markets Review, July 2007	341
	Draft of Letter to MCM Clients, July 2007	342

Quarterly Capital Markets Review, October 2007: “What’s Up, Doc?”	348
Cyclical or Secular? The Current Crisis in the Larger Context of Cause and Effect—Connecting the Dots through Time	350
The Misalignment of Incentives and the Opaque World of High Finance	352
Edging toward the Precipice	360
The “Simple” Question Why?	362
An Early Epitaph for the First Decade of the New Millennium	363
Credit-Default Swap Alchemy: Transmuting Junk into Gold	371
Counterparty Risk	376
<b>Chapter 11 The End or the Beginning?</b>	<b>381</b>
Origins of a Crisis: Decoupling Risk and Return	384
The Question on Which the Future of Investment Hangs	388
The Stockdale Paradox: What Do Survivors Have in Common?	389
Know Thyself	390
Harsh Realities and the Snowball Effect	394
The Future of Risk Aversion	400
Price Is What You Pay, Value Is What You Get	404
The Lost Decade	407
The Most Powerful Force in the Universe	409
Value Investors: A Rare Breed	411
Risk—Once Again a Four-Letter Word?	413
Analysis and Intuition: The Yin and Yang	416
<b>Epilogue “This Time Is Different”</b>	<b>427</b>
Those Who Don’t Remember History . . .	428
The Insidious Disappearance of Accountability	430
The Intersection of the Philosophical and the Pragmatic	432
Respect for Risk . . . Just for a Fleeting Moment	433
<b>Index</b>	<b>437</b>