

# Contents

<b>CHAPTER 1</b>	
<b>Introduction</b>	<b>1</b>
What Is an Investment Philosophy?	2
Why Do You Need an Investment Philosophy?	3
The Big Picture of Investing	4
Categorizing Investment Philosophies	7
Developing an Investment Philosophy	10
Conclusion	12
Exercises	13
<b>CHAPTER 2</b>	
<b>Upside, Downside: Understanding Risk</b>	<b>15</b>
What Is Risk?	16
Equity Risk: Theory-Based Models	16
Assessing Conventional Risk and Return Models	32
Equity Risk: Alternative Measures	34
Equity Risk: Assessing the Field	45
Default Risk	46
Conclusion	50
Exercises	51
<b>CHAPTER 3</b>	
<b>Numbers Don't Lie—Or Do They?</b>	<b>53</b>
The Basic Accounting Statements	53
Asset Measurement and Valuation	55
Measuring Financing Mix	62
Measuring Earnings and Profitability	69
Measuring Risk	75
Differences in Accounting Standards and Practices	82
Conclusion	82
Exercises	85

<b>CHAPTER 4</b>	
<b>Show Me the Money: The Basics of Valuation</b>	<b>87</b>
Intrinsic Value	87
Relative Valuation	110
Valuing an Asset with Contingent Cash Flows (Options)	119
Conclusion	121
Exercises	122
<b>CHAPTER 5</b>	
<b>Many a Slip: Trading, Execution, and Taxes</b>	<b>125</b>
The Trading Cost Drag	125
The Components of Trading Costs: Traded Financial Assets	127
Trading Costs with Nontraded Assets	146
Management of Trading Costs	148
Taxes	150
Conclusion	159
Exercises	160
<b>CHAPTER 6</b>	
<b>Too Good to Be True? Testing Investment Strategies</b>	<b>163</b>
Why Does Market Efficiency Matter?	163
Efficient Markets: Definition and Implications	164
Behavioral Finance: The Challenge to Efficient Markets	170
A Skeptic's Guide to Investment Strategies	204
Conclusion	206
Exercises	207
<b>CHAPTER 7</b>	
<b>Smoke and Mirrors? Price Patterns, Volume Charts, and Technical Analysis</b>	<b>209</b>
Random Walks and Price Patterns	209
Empirical Evidence	211
The Foundations of Technical Analysis	239
Technical Indicators and Charting Patterns	240
Conclusion	255
Exercises	256
<b>CHAPTER 8</b>	
<b>Graham's Disciples: Value Investing</b>	<b>259</b>
Who Is a Value Investor?	259
The Passive Screener	260

<i>Contents</i>	<b>vii</b>
The Contrarian Value Investor	284
Activist Value Investing	293
Conclusion	326
Exercises	326
<b>CHAPTER 9</b>	
<b>The Allure of Growth: Small Cap and Growth Investing</b>	<b>329</b>
Who Is a Growth Investor?	329
Passive Growth Investing	330
Activist Growth Investing	365
Conclusion	372
Exercises	373
<b>CHAPTER 10</b>	
<b>Information Pays: Trading on News</b>	<b>375</b>
Information and Prices	376
Trading on Private Information	378
Trading on Public Information	398
Implementing an Information-Based Investment Strategy	421
Conclusion	422
Exercises	423
<b>CHAPTER 11</b>	
<b>A Sure Profit: The Essence of Arbitrage</b>	<b>425</b>
Pure Arbitrage	425
Near Arbitrage	450
Speculative Arbitrage	460
Long/Short Strategies—Hedge Funds	465
Conclusion	469
Exercises	470
<b>CHAPTER 12</b>	
<b>The Impossible Dream? Timing the Market</b>	<b>473</b>
Market Timing: Payoffs and Costs	473
Market Timing Approaches	477
The Evidence on Market Timing	506
Market Timing Strategies	514
Market Timing Instruments	518
Connecting Market Timing to Security Selection	521
Conclusion	521
Exercises	522

**CHAPTER 13**

<b>Ready to Give Up? The Allure of Indexing</b>	<b>525</b>
The Mechanics of Indexing	525
A History of Indexing	527
The Case for Indexing	530
Why Do Active Investors Not Perform Better?	554
Alternative Paths to Indexing	562
Conclusion	571
Exercises	572

**CHAPTER 14**

<b>A Road Map to Choosing an Investment Philosophy</b>	<b>575</b>
A Self-Assessment	575
Finding an Investment Philosophy	579
The Right Investment Philosophy	581
Conclusion	583
Exercises	584

**Index****585**

<http://www.pbookshop.com>