Rational Expectations: Asset Allocation For Investing Adults (Investing For Adults) (Volume 4)

WHEN IT COMES TO INVESTING FOR YOUR FUTURE, THERE'S ONLY ONE SURE BET—ASSET ALLOCATION THE EASY WAY TO GET STARTED Everything You Need to Know About How To: Implement a smart asset allocation strategy Diversify your investments with stocks, bonds, real estate, and other classes Change your allocation and lock in gains Trying to outwit the market is a bad gamble. If you're serious about investing for the long run, you have to take a no-nonsense, businesslike approach to your portfolio. In addition to covering all the basics, this new edition of All About Asset Allocation includes timely advice on: Learning which investments work well together and why Selecting the right mutual funds and ETFs Creating an asset allocation that's right for your needs Knowing how and when to change an allocation Understanding target-date mutual funds "All About Asset Allocation offers advice that is both prudent and practical--keep it simple, diversify, and, above all, keep your expenses low--from an author who both knows how vital asset allocation is to investment success and, most important, works with real people." -- John C. Bogle, founder and former CEO, The Vanguard Group "With All About Asset Allocation at your side, you'll be executing a sound investment plan, using the best materials and wearing the best safety rope that money can buy." -- William Bernstein, founder, Effi cientFrontier.com, and author, The Intelligent Asset Allocator

The classic guide to constructing a solid portfolio—without a financial advisor! “With relatively little effort, you can design and assemble an investment portfolio that, because of its wide diversification and minimal expenses, will prove superior to the most professionally managed accounts. Great intelligence and good luck are not required.” William Bernstein’s commonsense approach to portfolio construction has served investors well during the past turbulent decade—and it’s what made The Four Pillars of Investing an instant classic when it was first published nearly a decade ago. This down-to-earth book lays out in easy-to-understand prose the four essential topics that every investor must master: the relationship of risk and reward, the history of the market, the psychology of the investor and the market, and the folly of taking financial advice from investment salespeople. Bernstein pulls back the curtain to reveal what really goes on in today’s financial industry as he outlines a simple program for building wealth while controlling risk. Straightforward in its presentation and generous in its real-life examples, The Four Pillars of Investing presents a no-nonsense discussion of: The art and science of mixing different asset classes into an effective blend The dangers of actively picking stocks, as opposed to investing in the whole market Behavioral finance and how state of mind can adversely affect decision making Reasons the mutual fund and brokerage industries, rather than your partners, are often your most direct competitors Strategies for managing all of your assets—savings, 401(k)s, home equity—as one portfolio Investing is not a destination. It is a journey, and along the way are stockbrokers, journalists, and mutual fund companies whose interests are diametrically opposed to yours. More relevant today than ever, The Four Pillars of Investing shows you how to determine your own financial direction and assemble an investment program with the sole goal of building long-term wealth for you and your family.

The presence of speculative bubbles in capital markets (an important area of interest in financial history) is widely accepted across many circles. Talk of them is pervasive in the media and especially in the popular financial press. Bubbles are thought to be found primarily in the stock market, which is our main interest, although bubbles are said to occur in other markets. Bubbles go hand in hand with the notion that markets can be irrational. The academic community has a great interest in bubbles, and it has produced scholarly literature that is voluminous. For some economists, doing bubble research is like joining the vanguard of a Kuhnian paradigm shift in economic thinking. Not so fast. If bubbles did exist, they would pose a serious challenge to neoclassical finance. Bubbles would contradict the ideas that markets are rational or work in an informationally efficient manner. That’s what makes the topic of bubbles interesting. This book reviews and evaluates the academic literature as well as some popular investment books on the possible existence of speculative bubbles in the stock market. The main question is whether there is convincing empirical evidence that bubbles exist. A second question is whether the theoretical concepts that have been advanced for bubbles make them plausible. The reader will discover that I am skeptical that bubbles actually exist. But I do not think I or anyone else will ever be able to conclusively prove that there has never been a bubble. From studying the literature and from reading history, I find that many famous purported bubbles reflect inaccurate history or mistakes in analysis or simply cannot be shown to have existed. In other instances, bubbles might have existed. But in each of those cases, there are credible rational explanations. And good evidence exists for the idea that even if bubbles do exist, they are not of great importance to understanding the stock market.

WINNER, Business: Personal Finance/Investing, 2015 USA Best Book Awards FINALIST, Business: Reference, 2015 USA Best Book Awards Investor Behavior provides readers with a comprehensive understanding and the latest research in the area of behavioral finance and investor decision making. Blending contributions from noted academics and experienced practitioners, this 30-chapter book will provide investment professionals with insights on how to understand and manage client behavior; a framework for interpreting financial market activity; and an in-depth understanding of this important new field of investment research. The book should also be of interest to academics, investors, and students. The book will cover the major principles of investor psychology, including heuristics, bounded rationality, regret theory, mental accounting, framing, prospect theory, and loss aversion. Specific sections of the book will delve into the role of personality traits, financial therapy, retirement planning, financial coaching, and emotions in investment decisions. Other topics covered include risk perception and tolerance, asset allocation decisions under inertia and inattention bias; evidenced based financial planning, motivation and satisfaction, behavioral investment management, and neurofinance. Contributions will delve into the behavioral underpinnings of various trading and investment topics including trader psychology, stock momentum, earnings surprises, and anomalies. The final chapters of the book examine new research on socially responsible investing, mutual funds, and real estate investing from a behavioral perspective. Empirical evidence and current literature about each type of investment issue are featured. Cited research studies are presented in a straightforward manner focusing on the comprehension of study findings, rather than on the details of mathematical frameworks.

The Intelligent Asset Allocator: How to Build Your Portfolio to Maximize Returns and Minimize Risk

The Birth of Plenty: How the Prosperity of the Modern Work was Created

Bursting the Bubble: Rationality in a Seemingly Irrational Market

The Delusions Of Crowds

Behavioral Finance: The Second Generation

Lessons for Building a Winning Portfolio

the equilibrium is linear for a certain range of the market signal but is non-linear for the remaining range of the market signal.

Covers navigating the global investment landscape and provides a way of thinking about diversification.

The rewards of carefully chosen alternative investments can be great. But many investors don’t know enough about unfamiliar investments to make wise choices. For that reason, financial advisers Larry Swedroe and Jared Kizer designed this book to bring investors up to speed on the twenty most popular alternative investments: Real estate, Inflation-protected securities, Commodities, International equities, Fixed annuities, Stable-value funds, High-yield (junk) bonds, Private equity (venture capital), Covered calls, Socially responsible mutual funds, Precious metals equities, Preferred stocks, Convertible bonds, Emerging market bonds, Hedge funds, Leveraged buyouts, Variable annuities, Equity-indexed annuities, Structured investment products, Leveraged funds The authors describe how the investments work, the pros and cons of each, which to consider, which to avoid, and how to get started. Swedroe and Kizer evaluate each investment in terms of: Expected returns Volatility Distribution of returns Diversification potential Fees Trading and operating expenses Liquidity Tax efficiency Account location Role in an asset-allocation program Any investor who is considering or just curious about investment opportunities outside the traditional world of stocks, bonds, and bank certificates of deposit would be well-advised to read this book.

Alternative Investments: A Primer for Investment Professionals provides an overview of alternative investments for institutional asset allocators and other overseers of portfolios containing both traditional and alternative assets. It is designed for those with substantial experience regarding traditional investments in stocks and bonds but limited familiarity regarding alternative assets, alternative strategies, and alternative portfolio management. The primer categorizes alternative assets into four groups: hedge funds, real assets, private equity, and structured products/derivatives. Real assets include vacant land, farmland, timber, infrastructure, intellectual property, commodities, and private real estate. For each group, the primer provides essential information about the characteristics, challenges, and purposes of these institutional-quality alternative assets in the context of a well-diversified institutional portfolio. Other topics addressed by this primer include tail risk, due diligence of the investment process and operations, measurement and management of risks and returns, setting return expectations, and portfolio construction. The primer concludes with a chapter on the case for investing in alternatives.

Lifecycle Investing

Deep Risk

Business Cycles and Equilibrium

Value Averaging

Investment Strategies in Oxford and Cambridge

Strategic Asset Allocation

This booklet takes portfolio design beyond the familiar "black box" mean-variance framework. Most importantly, the short-term volatility of financial assets, commonly measured as standard deviation, is a highly imperfect measure of the actual long-horizon perils faced by real-world investors subject to the vagaries of financial and military history. These risks have names--inflation, deflation, confiscation, and devastation--and any useful discussion of portfolio design of necessity incorporates their probabilities, consequences, and costs of mitigation ... This booklet contains ... with luck, a framework within income and all-equity portfolios. This booklet contains ... with luck, a framework within which to think more clearly about risk. Note: the entire Investing for Adults series is not for beginners.

A timeless approach to investing wisely over an investment lifetime With the current market maelstrom as a background, this timely guide describes just how to plan a lifetime of investing, in good times and bad, discussing stocks and bonds as well as the relationship between risk and return. Filled with in-depth insights and practical advice, The Investor's Manifesto will help you understand the nuts and bolts of executing a lifetime investment plan, including: how to survive dealing with the investment industry, the practical meaning of market efficiency, how much to save, how to maintain discipline in the face of panics and manias, and what vehicles to use to achieve financial security and freedom. Written by bestselling author William J. Bernstein, well known for his insights on how individual investors can manage their personal wealth and retirement funds wisely Examines how the financial landscape has radically altered in the past two years, and what investors should do about it Contains practical insights that the everyday investor can understand Focuses on the concept of Pascal's Wager-identifying and avoiding worst-case scenarios, and planning investment decisions on that basis With The Investor's Manifesto as your guide, you'll quickly discover the timeless investment approaches that can put you in a better position to prosper over time.

An introduction to the theory and methods of empirical asset pricing, integrating classical foundations with recent developments. This book offers a comprehensive advanced introduction to asset pricing, the study of models for the prices and returns of various securities. The focus is empirical, emphasizing how the models relate to the data. The book offers a uniquely integrated treatment, combining classical foundations with more recent developments in the literature and relating some of the material to applications in investment management. It covers the theory of empirical asset pricing, the main empirical methods, and a range of applied topics. The book introduces the theory of empirical asset pricing through three main paradigms: mean variance analysis, stochastic discount factors, and beta pricing models. It describes empirical methods, beginning with the generalized method of moments (GMM) and viewing other methods as special cases of GMM; offers a comprehensive review of fund performance evaluation; and presents selected applied topics, including a substantial chapter on predictability in asset markets that covers predicting the level of returns, volatility and higher moments, and predicting cross-sectional differences in returns. Other chapters cover production-based asset pricing, long-run risk models, the Campbell-Shiller approximation, the debate on covariance versus characteristics, and the relation of volatility to the cross-section of stock returns. An extensive reference section captures the current state of the field. The book is intended for use by graduate students in finance and economics; it can also serve as a reference for professionals.

Behavioral finance presented in this book is the second-generation of behavioral finance. The first generation, starting in the early 1980s, largely accepted standard finance’s notion of people’s wants as “rational” wants—restricted to the utilitarian benefits of high returns and low risk. That first generation commonly described people as “irrational”—succumbing to cognitive and emotional errors and misled on their way to their rational wants. The second generation describes people as normal. It begins by acknowledging the full range of people’s normal wants and their benefits—utilitarian, expressive, and emotional—distinguishes normal wants from errors, and offers guidance on using shortcuts and avoiding errors on the way to satisfying normal wants. People’s normal wants include financial security, nurturing children and families, gaining high social status, and staying true to values. People’s normal wants, even more than their cognitive and emotional shortcuts and errors, underlie answers to important questions of finance, including saving and spending, portfolio construction, asset pricing, and market efficiency.

The Good, the Flawed, the Bad, and the Ugly

Asset Allocation: Balancing Financial Risk

Beyond Mechanical Markets

The Four Pillars of Investing: Lessons for Building a Winning Portfolio

Factor Investing and Asset Allocation: A Business Cycle Perspective

Governance is a word that is increasingly heard and read in modern times, be it corporate governance, global governance, or investment governance. Investment governance, the central concern of this modest volume, refers to the effective employment of resources—people, policies, processes, and systems—by an individual or governing body (the fiduciary or agent) seeking to fulfil their fiduciary duty to a principal (or beneficiary) in addressing an underlying investment challenge. Effective investment governance is an enabler of good stewardship, and for this reason it should, in our view, be of interest to all fiduciaries, no matter the size of the pool of assets or the nature of the beneficiaries. To emphasize the importance of effective investment governance and to demonstrate its flexibility across organization type, we consider our investment governance process within three contexts: defined contribution (DC) plans, defined benefit (DB) plans, and endowments and foundations (E&Fs). Since the financial crisis of 2007–2008, the financial sector’s place in the economy and its methods and ethics have (rightly, in many cases) been under scrutiny. Coupled with this theme, the task of investment governance is of increasing importance due to the sheer weight of money, the retirement savings gap, demographic trends, regulation and activism, and rising standards of behavior based on higher expectations from those fiduciaries serve. These trends are at the same time related and self-reinforcing. Having explored the why of investment governance, we dedicate the remainder of the book to the question of how to bring it to bear as an essential component of good fiduciary practice. At this point, the reader might expect investment professionals to launch into a discussion about an investment process focused on the best way to capture returns. We resist this temptation. Instead, we contend that achieving outcomes on behalf of beneficiaries is as much about managing risks as it is about capturing returns—and we mean “risks” broadly construed, not just fluctuations in asset values.

Handbook of U.S. Consumer Economics presents a deep understanding on key, current topics and a primer on the landscape of contemporary research on the U.S. consumer. This volume reveals new insights into household decision-making on consumption and saving, borrowing and investing, portfolio allocation, demand of professional advice, and retirement choices. Nearly 70% of U.S. gross domestic product is devoted to consumption, making an understanding of the consumer a first order issue in macroeconomics. After all, understanding how households played an important role in the boom and bust cycle that led to the financial crisis and recent great recession is a key metric. Introduces household finance by examining consumption and borrowing choices Tackles macro-problems by observing new, original micro-data Looks into the future of consumer spending by using data, not questionnaires

Academic finance has had a remarkable impact on many financial services. Yet long-term investors have received curiously little guidance from academic financial economists. Mean-variance analysis, developed almost fifty years ago, has provided a basic paradigm for portfolio choice. This approach usefully emphasizes the ability of diversification to reduce risk, but it ignores several critically important factors. Most notably, the analysis is static; it assumes that investors care only about risks to wealth one period ahead. However, many investors—-both individuals and institutions such as charitable foundations or universities—-seek to finance a stream of consumption over a long lifetime. In addition, mean-variance analysis treats financial wealth in isolation from income. Long-term investors typically receive a stream of income and use it, along with financial wealth, to support their consumption. At the theoretical level, it is well understood that the solution to a long-term portfolio choice problem can be very different from the solution to a short-term problem. Long-term investors care about intertemporal shocks to investment opportunities and labor income as well as shocks to wealth itself, and they may use financial assets to hedge their intertemporal risks. This should be important in practice because there is a great deal of empirical evidence that investment opportunities—-both interest rates and risk premia on bonds and stocks—-vary through time. Yet this insight has had little influence on investment practice because it is hard to solve for optimal portfolios in intertemporal models. This book seeks to develop the intertemporal approach into an empirical paradigm that can compete with the standard mean-variance analysis. The book shows that long-term inflation-indexed bonds are the riskless asset for long-term investors, it explains the conditions under which stocks are safer assets for long-term than for short-term investors, and it shows how labor income influences portfolio choice. These results shed new light on the rules of thumb used by financial planners. The book explains recent advances in both analytical and numerical methods, and shows how they can be used to understand the portfolio choice problems of long-term investors.

Financial experts agree: Asset allocation is the key strategies for maintaining a consistent yet superior rate of investment return. Now, Roger Gibson's Asset Allocation - the bestselling reference book on this popular subject for a decade has been updated to keep pace with the latest developments and findings. This Third Edition provides step-by-step strategies for implementing asset allocation in a high return/low risk portfolio, educating financial planning clients on the solid logic behind asset allocation, and more.

Portfolio Selection

Asset Allocation for Investing Adults

Efficient Diversification of Investments

Models and Methods

Reviving Allais's Lost Theory of Psychological Time

The Only Guide to Alternative Investments You'll Ever Need

Rational Expectations is a clean sheet of paper in the wonky world of quantitatively based asset allocation aimed at small investors. Continuing the theme of the Investing for Adults series, this full-length finance title is not for beginners, but rather assumes a fair degree of quantitative ability and finance knowledge. If you think you can time the market or pick stocks and mutual fund managers, or even if you think that you can formulate an optimally efficient mean-variance asset allocation with a black box, then learn some basic finance and come back in a few years. On the other hand, if you know your way around risk premiums and standard deviations and know who Irving Fisher and Benjamin Graham were, and if you want to sharpen your asset class skills, you've come to the right place.

Rational ExpectationsAsset Allocation for Investing Adults

In the wake of the global financial crisis that began in 2007, faith in the rationality of markets has lost ground to a new faith in their irrationality. The problem, Roman Frydman and Michael Goldberg argue, is that both the rational and behavioral theories of the market rest on the same fatal assumption--that markets act mechanically and economic change is fully predictable. In Beyond Mechanical Markets, Frydman and Goldberg show how the failure to abandon this assumption hinders our understanding of how markets work, why price swings help allocate capital to worthy companies, and what role government can and can't play. The financial crisis, Frydman and Goldberg argue, was made more likely, if not inevitable, by contemporary economic theory, yet its core tenets remain unchanged today. In response, the authors show how imperfect knowledge economics, an approach they pioneered, provides a better understanding of markets and the financial crisis. Frydman and Goldberg deliver a withering critique of the widely accepted view that the boom in equity prices that ended in 2007 was a bubble fueled by herd psychology. They argue, instead, that price swings are driven by individuals' ever-imperfect interpretations of the significance of economic fundamentals for future prices and risk. Because swings are at the heart of a dynamic economy, reforms should aim only to curb their excesses. Showing why we are being dangerously led astray by thinking of markets as predictably rational or irrational, Beyond Mechanical Markets presents a powerful challenge to conventional economic wisdom that we can't afford to ignore.

This dissertation studies the effects of asymmetric information and learning on asset prices and investor decision-making. Two main themes run through the work. The first is the linkage between investor decisions and the information used to make those decisions; that is, portfolio choices reflect the nature and quality of available information. The second theme is the interaction between investor learning and price informativeness. The information held by individual investors is reflected in market prices through their trading decisions, and prices thus transmit this information to other investors. In the first chapter, Asymmetric Information in Financial Markets: Anything Goes, I study a standard Grossman and Stiglitz (1980) noisy rational expectations economy, but relax the usual assumption of the joint normality of asset payoff and supply. The primary contribution is to characterize how the equilibrium relation between price and fundamentals depends on the way in which investors react to the information contained in price. My solution approach dispenses with the typical "conjecture and verify" method, which allows me to analytically solve an entire class of previously intractable nonlinear models that nests the standard model. This simple generalization provides a purely information-based channel for many common phenomena. In particular, price jumps and crashes may arise endogenously, purely due to learning effects, and observation of the net trading volume may be valuable for investors in the economy as it can provide a refinement of the information conveyed by price. Furthermore, the value of acquiring information may be non-monotonic in the number of informed traders, leading to multiple equilibria in the information market. I show also that the relation between investor disagreement and returns is ambiguous and depends on higher moments of the return distribution. In short, many of the standard results from noisy rational expectations models are not robust. I introduce monotone likelihood ratio conditions that determine the signs of the various comparative statics, which represents the first demonstration of the implicit importance of the MLRP in the noisy rational expectations literature. In the second chapter Do Fund Managers Make Informed Asset Allocation Decisions?, a joint work with Jacob S. Sagi, we derive a dynamic model in which mutual fund managers make asset allocation decisions based on private and public information. The model predicts that the portfolio market weights of better informed managers will mean revert faster and be more variable. Conversely, portfolio weights that mean revert faster and are more variable should have better forecasting power for expected returns. We test the model on a large dataset of US mutual fund domestic equity holdings and find evidence consistent with the hypothesis of timing ability, especially at three- to 12-month forecasting horizons. Nevertheless, whatever timing ability may be reflected in portfolio weights does not appear to translate into higher realized returns on funds' portfolios.

Essays on Asymmetric Information in Financial Markets

Portfolio Design

The Safe and Easy Strategy for Higher Investment Returns

Investment Governance for Fiduciaries

Investor Behavior

Natural Expectations, Macroeconomic Dynamics, and Asset Pricing

Eric Barthalon applies the neglected theory of psychological time and memory decay of Nobel Prize–winning economist Maurice Allais (1911–2010) to model investors' psychology in the present context of recurrent financial crises. Shaped by the behavior of the demand for money during episodes of hyperinflation, Allais's theory suggests economic agents perceive the flow of clocks' time and forget the past at a context-dependent pace: rapidly in the presence of persistent and accelerating inflation and slowly in the event of the opposite situation. Barthalon recasts Allais's work as a general theory of "expectations" under uncertainty, narrowing the gap between economic theory and investors' behavior. Barthalon extends Allais's theory to the field of financial instability, demonstrating its relevance to nominal interest rates in a variety of empirical scenarios and the positive nonlinear feedback that exists between asset price inflation and the demand for risky assets. Reviewing the works of the leading protagonists in the expectations controversy, Barthalon exposes the limitations of adaptive and rational expectations models and, by means of the perceived risk of loss, calls attention to the speculative bubbles that lacked the positive displacement discussed in Kindleberger's model of financial crises. He ultimately extrapolates Allaisian theory into a pragmatic approach to investor behavior and the natural instability of financial markets. He concludes with the policy implications for governments and regulators. Balanced and coherent, this book will be invaluable to researchers working in macreconomics, financial economics, behavioral finance, decision theory, and the history of economic thought.

William J. Bernstein promises to lay out an investment strategy that any seven year old could understand and will take just 15 minutes of work per year. He also promises it will beat 90% of finance professionals in the long run, but still make you a millionaire over time. Bernstein is addressing young Americans just embarking on their working careers. Bernstein advocates saving 15% of one's salary starting no later than age 25 into tax-sheltered savings plans (IRA or 401(k) in the U.S., RRSPs or Registered Pension Plans in Canada), and divvying up the money into just three mutual funds: a U.S. total stock market index fund, an international stock market index fund and a U.S. total bond market index fund. For millennials, saving 15% of salary is the financial equivalent of dying, which is why Bernstein titles his document 'IF you can.'

An updated look at what Fischer Black's ideas on business cycles and equilibrium mean today Throughout his career, Fischer Black described a view of business fluctuations based on the idea that a well-developed economy will be continually in equilibrium. In the essays that constitute this book, which is one of only two books Black ever wrote, he explores this idea thoroughly and reaches some surprising conclusions. With the newfound popularity of quantitative finance and risk management, the work of Fischer Black has garnered much attention. Business Cycles and Equilibrium-with its theory that economic and financial markets are in a continual equilibrium-is one of his books that still rings true today, given the current economic crisis. This Updated Edition clearly presents Black's classic theory on business cycles and the concept of equilibrium, and contains a new introduction by the person who knows Black best: Perry Mehrling, author of Fischer Black and the Revolutionary Idea of Finance (Wiley). Mehrling goes inside Black's life to uncover what was occurring during the time Black wrote Business Cycles and Equilibrium, while also shedding light on what Black would make of today's financial and economic meltdown and how he would best advise to move forward. The essays within this book reach some interesting conclusions concerning the role of equilibrium in a developed economy Warns about the use and abuse of modeling Explains the risky business of risk in a straightforward and accessible style Contains chapters dedicated to "the effects of uncontrolled banking," "the trouble with econometric models," and "the effects of noise on investing" Includes commentary on Black's life and work at the time Business Cycles and Equilibrium was written as well as insight as to what Black would make of the current financial meltdown Engaging and informative, the Updated Edition of Business Cycles and Equilibrium will give you a better understanding of what is really going on during these uncertain and volatile financial times.

An in-depth look at the role of asset allocation in today's investment environment In Modern Asset Allocation author Richard Marston shows you how to jump back into the market with the reminder that the key to investing is to do it for the long-run. And in looking at investing for the long-term, what matters most is asset allocation. This reliable resource offers a fresh look at asset allocation, and discusses its importance in today's investment environment. Along the way, it examines how returns on stocks, bonds, international equities, hedge funds, real estate, commodities, and the like all increase and are of added value to a portfolio when they are strategically allocated. Examines all of the major asset classes that go into modern portfolios and asks how much they add to portfolio diversification Addresses the issues financial professionals face when attempting to provide diversified portfolios for their clients Based on sessions that Richard Marston has developed for the CIMA program Asset allocation is still thriving as a method to achieve long-term profitability. This book contains the insights that you need to excel at this endeavor.

If You Can

The Investor's Manifesto

How Millennials Can Get Rich Slowly

Alternative Investments: A Primer for Investment Professionals

On Risk, Rational Expectations, and Efficient Asset Markets

Rational Expectations

Studies of human memory indicate that features of an event evoke memories of prior associated contextual states, which in turn become associated with the current event's features. This mechanism allows the remote past to influence the present, even as agents gradually update their beliefs about their environment. We apply a version of retrieved context theory, drawn from the literature on human memory, to four problems in asset pricing and portfolio choice: over-persistence of beliefs, providence of financial crises, price momentum, and the impact of fear on asset allocation. These examples suggest a recasting of neoclassical rational expectations in terms of beliefs as governed by principles of human memory.

"The Ages of the Investor: A Critical Look at Life-cycle Investing" is intended to be the first installment in the "Investing for Adults" series. Just as grown-ups do not believe in the Tooth Fairy, the Easter Bunny, or Santa Claus, “Investing adults” know that there is no such creature as the Stock-picking Fairy or the Market-timing Fairy. Further, there is no Risk Fairy who will write you cheap options that will protect your stock holdings against loss. Investing adults are familiar with Gene Fama, Zvi Bodie, Jack Bogle, and Burton Malkiel, and understand that a mean variance optimizer does not blend vegetables. In other words, this series is not for beginners. Future topics will, with luck, include the limits of market efficiency and diversification in increasingly non-segmented global markets.

“Compact and immensely readable . . . a tour de force. Prepare to be amazed.” John C. Bogle, Founder and Former CEO, The Vanguard Group Bernstein is widely respected as author of the bestseller, The Intelligent Asset Allocator Identifies and explains the four conditions necessary for human progress

How does an economy behave if (1) fundamentals are truly hump-shaped, exhibiting momentum in the short run and partial mean reversion in the long run, and (2) agents do not know that fundamentals are hump-shaped and base their beliefs on parsimonious models that they fit to the available data? A class of parsimonious models leads to qualitatively similar biases and generates empirically observed patterns in asset prices and macroeconomic dynamics. First, parsimonious models will robustly pick up the short-term momentum in fundamentals but will generally fail to fully capture the long-run mean reversion. Beliefs will therefore be characterized by endogenous extrapolation bias and pro-cyclical excess optimism. Second, asset prices will be highly volatile and exhibit partial mean reversion--i.e., overreaction. Excess returns will be negatively predicted by lagged excess returns, P/E ratios, and consumption growth. Third, real economic activity will have amplified cycles. For example, consumption growth will be negatively auto-correlated in the medium run. Fourth, the equity premium will be large. Agents will perceive that equities are very risky when in fact long-run equity returns will co-vary only weakly with long-run consumption growth. If agents had rational expectations, the equity premium would be close to zero. Fifth, sophisticated agents--i.e., those who are assumed to know the true model--will hold far more equity than investors who use parsimonious models. Moreover, sophisticated agents will follow a counter-cyclical asset allocation policy. These predicted effects are qualitatively confirmed in U.S. data.

Uncertainty, Expectations, and Financial Instability

A Rational Expectations Model in Initial Public Offerings

Endowment Asset Management

Portfolio Theory and Management

Why People Go Mad in Groups

The Correlation Game in a Flat World

Time-Tested Techniques - Safe, Simple, and Proven Effective - for Building Your Own Investment Portfolio. "As its title suggest, Bill Bernstein's fine book honors the sensible principles of Benjamin Graham in the Intelligent Investor Bernstein's concepts are sound, his writing crystal clear, and his exposition orderly. Any reader who takes the time and effort to understand his approach to the crucial subject of asset allocation will surely be rewarded with enhanced long-term returns." - John C. Bogle, Founder and former Chief Executive Officer, The Vanguard Group President, Bogle Financial Markets Research Center Author, common Sense on Mutual Funds. "Bernstein has become a guru to a peculiarly '90s group: well-educated, Internet-powered people intent on investing well - and with minimal 'help' from professional Wall Street." - Robert Barker, Columnist, BusinessWeek. "I go home and tell my wife sometimes, 'I wonder if [Bernstein] doesn't know more than me.' It's humbling." - John Rekenthaler, Research Chief, Morningstar Inc. William Bernstein is an unlikely financial hero. A practicing neurologist, he used his self-taught investment knowledge and research to build one of today's most respected investor's websites. Now, let his plain-spoken The Intelligent Asset Allocator show you how to use the time-honored techniques of asset allocation to build your own pathway to financial security - one that is easy-to-understand, easier-to-apply, and supported by 75 years of solid history and wealth-building results.

Portfolio Theory and Management examines the foundations of portfolio management with the contributions of financial pioneers up to the latest trends. The book discusses portfolio theory and management both before and after the 2007-2008 financial crisis. It takes a global focus by highlighting cross-country differences and practices.

Diversification provides a well-known way of getting something close to a free lunch: by spreading money across different kinds of investments, investors can earn the same return with lower risk (or a much higher return for the same amount of risk). This strategy, introduced nearly fifty years ago, led to such strategies as index funds. What if we were all missing out on another free lunch that’s right under our noses? InLifecycle Investing, Barry Nalebuff and Ian Ayres-two of the most innovative thinkers in business, law, and economics-have developed tools that will allow nearly any investor to diversify their portfolios over time. By using leveraging when young-a controversial idea that sparked hate mail when the authors first floated it in the pages ofForbes-investors of all stripes, from those just starting to plan to those getting ready to retire, can substantially reduce overall risk while improving their returns. InLifecycle Investing, readers will learn How to figure out the level of exposure and leverage that’s right foryou How the Lifecycle Investing strategy would have performed in the historical market Why it will work even if everyone does it Whennotto adopt the Lifecycle Investing strategy Clearly written and backed by rigorous research,Lifecycle Investingpresents a simple but radical idea that will shake up how we think about retirement investing even as it provides a healthier nest egg in a nicely feathered nest.

This unique study focuses on how the endowment assets of Oxford and Cambridge colleges are invested. Despite their shared missions, each interprets its investment objective differently, often resulting in remarkably dissimilar strategies. This thought provoking study provides new insights for all investors with a long-term investment horizon.

All About Asset Allocation, Second Edition

Asset Price Swings, Risk, and the Role of the State

Rational Expectations and the Capital Asset Pricing Model

A Modern Approach to Asset Allocation

An Empirical Analysis of Household Asset Allocation Based on a Rational Expectations Model

Handbook of US Consumer Economics

From the award-winning author of A Splendid Exchange, a fascinating new history of financial and religious mass manias over the past five centuries “We are the apes who tell stories,” writes William Bernstein. “And no matter how misleading the narrative, if it is compelling enough it will nearly always trump the facts.” As Bernstein shows in his eloquent and persuasive new book, The Delusions of Crowds, throughout human history compelling stories have catalyzed the spread of contagious narratives through susceptible groups—with enormous, often disastrous, consequences. Inspired by Charles Mackay’s 19th-century classic Memoirs of Extraordinary Popular Delusions and the Madness of Crowds, Bernstein engages with mass delusion with the same curiosity and passion, but armed with the latest scientific research that explains the biological, evolutionary, and psychosocial roots of human irrationality. Bernstein tells the stories of dramatic religious and financial mania in western society over the last 500 years—from the Anabaptist Madness that afflicted the Low Countries in the 1530s to the dangerous End-Times beliefs that animate ISIS and pervade today’s polarized America; and from the South Sea Bubble to the Enron scandal and dot com bubbles of recent years. Through Bernstein’s supple prose, the participants are as colorful as their motivation, invariably “the desire to improve one’s well-being in this life or the next.” As revealing about human nature as they are historically significant, Bernstein’s chronicles reveal the huge cost and alarming implications of mass mania: for example, belief in dispensationalist End-Times has over decades profoundly affected U.S. Middle East policy. Bernstein observes that if we can absorb the history and biology of mass delusion, we can recognize it more readily in our own time, and avoid its frequently dire impact.

Embracing finance, economics, operations research, and computers, this book applies modern techniques of analysis and computation to find combinations of securities that best meet the needs of private or institutional investors.

Michael Edleson first introduced his concept of value averaging to the world in an article written in 1988. He then wrote a book entitled Value Averaging in 1993, which has been nearly impossible to find—until now. With the reintroduction of Value Averaging, you now have access to a strategy that can help you accumulate wealth, increase your investment returns, and achieve your financial goals.

The Psychology of Financial Planning and Investing

A Critical Look at Life-Cycle Investing

An Econometric Portfolio Balance Model of an Open Economy with Rational Expectations

A New, Safe, and Audacious Way to Improve the Performance of Your Retirement Portfolio

Rational Expectations Equilibrium in a Large Economy with Segmented Asset Markets

Skating Where the Puck Was