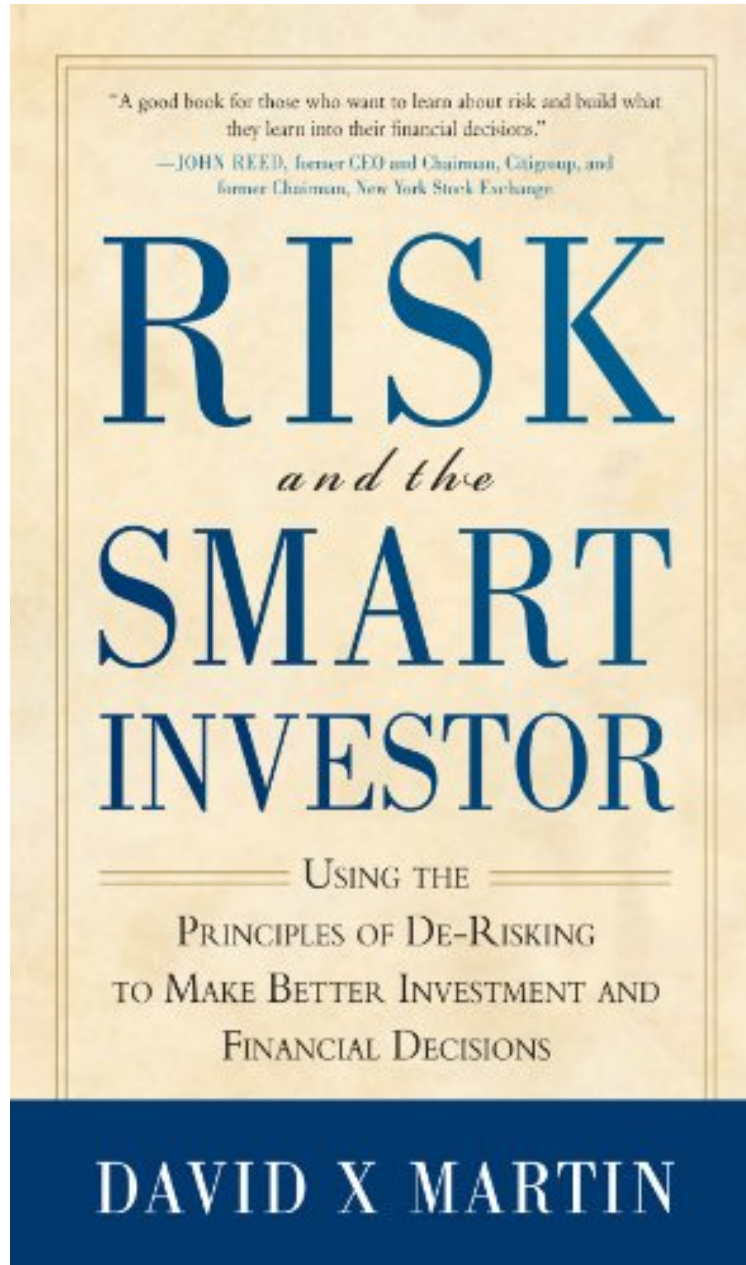


Risk and the Smart Investor

David C. Martin

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David C. Martin : Risk and the Smart Investor before purchasing it in order to gage whether or not it would be worth my time, and all praised Risk and the Smart Investor:

3 of 3 people found the following review helpful. Turn Its Checklists Into Your ScreensaverBy J. TowsonDavid

Martin's Risk and the Smart Investor (davidxmartin.com) offers one of those rare opportunities where you can get the right viewpoint into the right subject at exactly the right moment. Listening to the Chief Risk Officer of Alliance Bernstein talk about risk as we are coming out of the financial crisis is like listening to Steve Jobs on computers in 1980. You're getting the right point of view on a subject that has suddenly and irrevocably moved to a dominant position in the business world. Risk, particularly systemic, is the critical issue of the past 5 years and likely the next 10. What I appreciated about this book was the vantage point. Listening to how Citigroup viewed its risk profile prior to the crisis is fascinating. And how they slowly removed his risk controls over time. Disclosure point: my former boss, Prince Waleed, was the largest shareholder of Citi and I was sitting down the hall when he and Sandy Weill decided to fire Chuck Prince. Certainly a lot of people today wish they had known about David selling his Citi shares after learning Citi more or less abandoned many risk methods. My other big take-away from this book was the checklist he used to evaluate hedge funds which is an interesting mix of process and people issues. Transparency and reporting but also credentials and reputation. This is an interesting contrast to the usual assumption that risk is about modeling, as opposed to people and processes. And the persistence and consistency required makes it as much about psychology as anything else. While reading this, I promptly flagged several of the checklists and loaded them into my Blackberry and screensavers. The hope is that I will get into a more regular habit of checking this against my investments and operations. This is one of those books you should integrate into your daily habits. 7 of 7 people found the following review helpful. Another Book Review from The Aleph Blog By David Merkel Not every book grabs me at first. "Risk and the Smart Investor" was one such book. But it grew on me. Having been through many exercises in risk control inside insurance companies, I can sympathize with the much more complex job that it is to control risk inside investment banks. I was fascinated with the structure of the book, which I found tedious and hokey at first, but I grew to like the intriguing and novel approach. The author introduced the topic through his experience, then explained the theory, then showed how neglect of it led to failure, and then gave stories of Max and Rob, two very different men whose lives illustrated risk management, and the lack thereof. Risk control has to be realistic. You can't eliminate all risks. You shouldn't even want to eliminate all risks. Anyone who tries to eliminate all risk will end up killing the profitability the business. As that great moral philosopher James Tiberius Kirk once said, "Risk is our business." (For the jobs were I was explicitly a risk manager, I kept that quote on my wall.) I am going to touch on the themes of the book as I understand them. In order to control risk, one must first be able to control himself. Without self-control, there is no risk control. That process requires humility. Almost every action of risk control involves limiting the behavior of those that have the power to commit money for investment or to sell assets to raise cash. Part of that comes down to understanding what are reasonable goals, and what aren't. Nothing grows without limit. Almost every business has a maximum growth rate, which if exceeded materially raises the probability of insolvency. This is true for individuals as well. Peter Drucker once said something like, "Jobs should be big enough to be challenging, but not so big that they require superhuman effort." In the same way, efforts to grow your personal assets too quickly will lead to decisions with a high probability of large losses. For risk control the context of large firm, the critical question is cultural issues. That involves instilling the idea of risk control in every person in the firm - making it a part of the firm DNA. It must extend to the very pinnacle of management, and not let it be seen as something that is a tradable issue. It is similar to the idea of a reputation. You only get one reputation. Your reputation is your brand. If your reputation is harmed or destroyed, rebuilding it is desperately tough. Granted, America is the land of unlimited second chances, but rebuilding is still tough. We can diversify lines of business. We can diversify assets. We can diversify funding sources. We can't diversify our reputation. We only have one reputation. It is as one of my favorite bosses of the past said, "I'm willing to take lots of moderate risks, but not willing to take an action that has a material probability of destroying the firm." This is just another way to say that there are things that can be diversified and things that can't. Corporate culture cannot be diversified; it flows from the top and affects all employees. Good risk control cultures inculcate checks and balances. They make sure that no one has too much power, such that the work cannot be checked. They insist on transparency within the firm and transparency outside to the degree that it facilitates business and satisfies regulators. Such a corporate culture monitors continuously the factors that affect profitability future risks. It also learns from mistakes, but keeps the risks small early in the process so that learning from mistakes is not an expensive and surprising endeavor. The structure of the book contrasts financial risks and life risks through the lives of Rob and Max. They are two very different people, one of whom is careful about risk, and one of whom ignores risk. Just as we have seen firms that were careful about risk, during the present crisis, and firms that ignored risks, so we have seen the same in ourselves and our friends. The stories of Rob and Max on the risks that we go through life and the risk that we go through markets. In my opinion it enriches the book a great deal. Risk is inherent to life. And, the ultimate risk is death. You can't diversify death. You can't pay a certain spread over LIBOR in order to engage to death swap on your own life. The most you can do is build something that may last for some small to moderate amount of time after your death. Even the great Warren Buffett is trying to do something like this, as I explained in my piece Moat, Float, Growth. Quibbles None. It's a really good book; very well-thought out. Who would benefit from this book: This book would benefit anybody who deals with the question of risk, whether personally or corporately, and that means all of us. Not only do you get a lucid perspective on the causes of the financial crisis, but you get to see firsthand how

corporations deliberately the word sound risk management principles in order to make money in the short term. The reader also gains perspective on how to deal with risk in his or her own life. Will you go the way of Rob, or will you go the way of Max? Or, as most of us, will you do little of both? I read lots of books on asset allocation, but relatively few books on risk control, because few accessible books get written on that topic. This in my opinion was a very good book on risk control. It has my highest recommendation. 0 of 0 people found the following review helpful. Must Read By Michael An inspired and truly informational guide that will take you, hand in hand, on a journey through even the toughest economic landscapes and minefields, while instilling practical moral values in business, teaching you various life lessons. Risk management can be applied to all areas in one's life, and no source will help you minimize these risks like this book does. It is definitely a must read.

Master the most important investing skill of all—DECISION MAKING—De-risking your investments requires knowing that there is much you don't know. David X Martin Risk exists because of one simple fact: Decisions are always based on incomplete information. Therefore, to meet your investment goals over the long term, you must learn to manage the risks associated with a decision-making process that is by nature flawed. Risk and the Smart Investor provides a framework for making such decisions. Avoiding unrealistic promises of completely risk-free investing, world-renowned risk management expert David X Martin familiarizes you with the principles of risk management. Based on Martin's experience in managing risk at several of the world's largest financial institutions, this principle-based approach presents a unique perspective that helps you manage the risk in every investment you make. Risk and the Smart Investor provides not only a framework for managing risk in today's markets, it also prepares you to handle the next financial crisis—which is coming, sooner or later—by separating risk management into four separate processes: Assessment—know where you are, but accept the fact that you cannot know everything The Rules of the Game—determine your appetite for risk, diversify accordingly, demand transparency, and institute checks and balances Decision Making—consider all alternatives, fit your plans into specific time frames, and always have an exit strategy Reevaluation—continually monitor the outcomes of your decisions and learn from your mistakes Praise for Risk and the Smart Investor—Interesting and instructive. A good book for those who want to learn about risk and build this knowledge into their financial decisions.—John Reed, former CEO, Citigroup—David Martin has produced a popular yet serious post-financial crisis reflection on the fundamentals of risk management as a living process. Rich in experience and wisdom, Risk and the Smart Investor is both a useful handbook brimming with insights, and a moral tale for our times. Simply a must-read for every serious investor, risk manager, and just about everyone else.—Michael Power, professor, London School of Economics and Political Science—David Martin knows risk and the active investor and his book proves it.—Jerry Lieberman—This book is like having your own mentor to guide you through risk management decisions.—William Rhodes, Chairman, Citigroup and Citibank

About the Author David X Martin is senior vice president for AllianceBernstein, which has more than \$450 billion in assets under management. Formerly chief risk officer at AllianceBernstein, he also has held senior risk management positions at Citibank. Martin was founding chairman of the Investment Company Institute's (ICI) Risk Committee and has lectured at the graduate schools of business at MIT, Columbia University, and NYU. He has written articles for The Bankers Magazine, the journal Pension Investments, and the AEI-Brookings Joint Center Web site. He and his family live in the greater New York metropolitan area.