
BOOK REVIEW



Mark Kritzman, Senior Editor

THE LITTLE BOOK OF SAFE MONEY

By Jason Zweig

Wiley, 2010, Hardcover ('Little Book Big Profit' series)

and

THE LITTLE BOOK OF BULLET- PROOF INVESTING

By Ben Stein and Phil DeMuth

Wiley, 2010, Hardcover ('Little Book Big Profit' series)

(Reviewed by Javier Estrada, IESE Business School, Barcelona, Spain)

The "Little Book Big Profit" series keeps growing, with twelve books published and two more coming soon. Remarkably, the series has been keeping up its readability and usefulness for individual investors. Paraphrasing what I said in a previous review of two "Little Books" for this journal, I still find that the volumes in this series are short, easy to read, instructive, and

ultimately full of practical and useful investing advice.

The two little books reviewed here nicely complement each other. They tackle somewhat different topics but both ultimately advise investors what to focus on and what to stay away from. Both books favor diversification, low costs, and passive management; and both advise investors to avoid fads, frequent trading, and products difficult to understand. All common-sense investment advice, but the kind that is often underestimated and ignored by many investors.

Jason Zweig, author of the Wall Street Journal's "The Intelligent Investor" column, puts together and organizes in a coherent framework the sensible advice he gives in his columns. Nothing of what he says in this book would surprise his weekly readers. He starts the book with three rules that aim to keep investors' money

safe: (1) Don't take a risk you don't need to take; (2) don't take a risk that it's not most certain to reward you; and (3) don't risk money you can't afford to lose. Basic common sense, but investors need to be reminded of simple truths from time to time.

Zweig has advice for bond investors, summarizing it in the phrase "Don't reach for yield" and emphasizing the importance of TIPS (Treasury Inflation Protected Securities) in portfolios. He also has advice for stock investors, warning that in the long-term stocks are likely, but not certain, to outperform bonds and other investments; stressing the importance of valuation and its impact on returns; and supporting Ben Graham's approach of investing with a margin of safety in mind.

Predictably, Zweig advises investors to refrain from investing in products they do not

understand. He suggests that investors should stay away from hedge funds, products with fancy acronyms (which he calls WACronyms for being full of wacky complications and incomprehensible risks), and levered and inverse ETFs (the former that aim to magnify market fluctuations, and the latter that aim to move in the opposite direction from the market). Following this common-sense advice will not make you the most popular guest in the next party you attend, but it might make you one of its best long-term performers. You may not get the girl, but you will probably get the last laugh.

Zweig is a firm believer in both behavioral finance and neuroeconomics (he has an interesting book on the latter entitled *Your Money and Your Brain*) and his advice is sprinkled with teachings from these fields. He explains some behavioral quirks most investors have, the impact they have on investors' decisions, and what to do about them.

Ben Stein and Phil DeMuth, in turn, offer their own advice to investors in another engaging little book. This book has, in my opinion, two very different parts, the first of which is terrific and the second of which I could have lived without. I am not particularly fond of their humor ("So,

wouldn't you like to know what the Tangency Portfolio is? Well, we're not going to tell you. *Ha-ha*, just kidding. Okay, we'll tell you.") or their style of writing, but may be that's just me; you should not necessarily hold that against them.

What I view as the first part of the book comprises the first seven chapters. Chapter 3 is a terrific summary of what investors should not do when managing their portfolios. Interestingly, many investors do just those things, which include searching for investing tips in the newspapers, following the advice of biased TV pundits and fishy newsletters, trusting technical analysts, trying to time the market, leveraging, investing in fads, ... You get the picture. But you may still want to read this chapter carefully.

Chapter 4, on the contrary, focuses on the things investors should do when managing their portfolios. These include simplifying; diversifying; investing passively and consistently; minimizing expenses and taxes; and buying and holding for the long term. Again, the kind of recommendations many investors know about but often do not follow.

Chapters 5 and 6 discuss portfolios specifically designed for investors with varying degrees

of risk tolerance. Interestingly, this chapter discusses the specific ETFs investors could use to gain exposure to three portfolios with different levels of expected losses, and the proportion of their capital investors should put in each ETF. They also discuss the fees and expected return of each portfolio. All very useful, practical, and concrete financial advice.

What I view as the second part of the book (Chapters 8–13) compiles the type of advice I, personally, really dislike to read about. This includes the typical "save-more/spend-less" kind of thing, but with lots of annoying specifics. Some of it is wishful thinking (go to college *and* get a technical degree); some of it sounds like the paternalistic advice of a boring grandfather (marry a sensible person); and some of it is plainly and simply a waste of the reader's time (don't shop to stave off loneliness, don't redecorate your house, ...). I often think that this type of advice should be confined to a book entitled *Cheap Philosophy for Dummies*, but instead I find it spelled out in more books than I would like to. Oh, well.

To be sure, do not let the previous paragraph discourage you from reading Stein and DeMuth's book. The first seven

chapters are well worth reading, and if you are not as tired of cheap philosophy as I am you may not even dislike the following six chapters. You may also want to take a

look at the book's associated website (www.tangentportfolio.com), where you will find some interesting complementary material.

In short, as is the case with just about all 'Little Books,' I think you will find these two instructive, engaging, easy to read, and full of practical and useful advice.