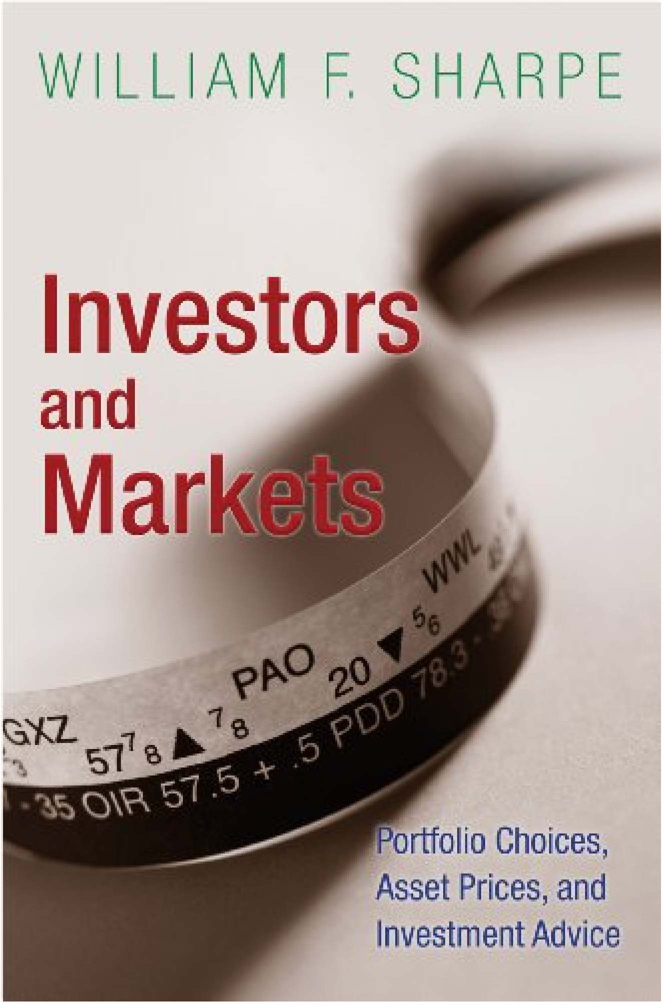
Investors And Markets: Portfolio Choices, Asset Prices, And Investment Advice (Princeton Lectures In Finance)



Synopsis

In Investors and Markets, Nobel Prize-winning financial economist William Sharpe shows that investment professionals cannot make good portfolio choices unless they understand the determinants of asset prices. But until now asset-price analysis has largely been inaccessible to everyone except PhDs in financial economics. In this book, Sharpe changes that by setting out his state-of-the-art approach to asset pricing in a nonmathematical form that will be comprehensible to a broad range of investment professionals, including investment advisors, money managers, and financial analysts. Bridging the gap between the best financial theory and investment practice, Investors and Markets will help investment professionals make better portfolio choices by being smarter about asset prices. Based on Sharpe's Princeton Lectures in Finance, Investors and Markets presents a method of analyzing asset prices that accounts for the real behavior of investors. Sharpe makes this technique accessible through a new, one-of-a-kind computer program (available for free on his Web site, at http://www.stanford.edu/~wfsharpe/apsim/index.html) that enables users to create virtual markets, setting the starting conditions and then allowing trading until equilibrium is reached and trading stops. Program users can then analyze the final portfolios and asset prices, see expected returns, and measure risk. In addition to popularizing the most sophisticated form of asset-price analysis, Investors and Markets summarizes much of Sharpe's most important previous work and reflects a lifetime of thinking about investing by one of the leading minds in financial economics. Any serious investment professional will benefit from Sharpe's unique insights.

Book Information

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Customer Reviews

I found the book investors and markets very good at explaining how markets work and how to build a portfolio for your risk.

Investors and Markets is written by Bill Sharpe, who is most known for the development of the widely-used Capital Asset Pricing Model (CAPM) which earned him the Nobel Prize. In this book, he attempts to bring to MBAs the material that is being taught to PhDs. He begins by saying that MBAs are taught the mean-variance framework (developed by Harry Markowitz) and PhDs are taught the state-preference approach (developed by Ken Arrow and Gerard Debreu). As a start, the reader should realize that this goal is ambitious and this is probably why this is one of the rare (maybe even the only book) that attempts to do this.Mean-variance analysis has gained wide acceptance because of its simplicity and its ease of use. You only need two statistics, i.e. mean and variance (or its square root - standard deviation), as a measure of return and risk. Mean and variance can be easily calculated from readily available data with the use of simple mathematics. Even the application of mean-variance analysis to portfolio management is relatively simple to implement, because the goal is to minimize the portfolio variance given certain constraints and is a straightforward quadratic programming problem (there are now variations to this but the general idea is still the same). On the other hand, the state-preference approach is more abstract. In my opinion, once you bring in utility functions and the different kinds of utility functions, the subject matter just becomes much more difficult. Now the goal becomes maximizing utility. One tough aspect of this approach is that most interesting problems involving utility maximization do not have solutions that, loosely, can be expressed as a finite set of generally accepted functions (see my point about complexity?). Therefore, we have to resort to simulations to find answers. The author provides a simulation program for use with this book, but I have not tried it and therefore cannot comment on this.Overall, I find this book to be well-written and actually very insightful. Maybe it helped that I have actually seen this material before in my Ph.D. classes. Bill Sharpe actually writes really well and provides a lot of the intuition that is important for someone learning the state-preference approach. However, for most of the target audience of this book, I think this book is going to be a challenging read. Maybe for advanced MBAs or those with strong economics backgrounds can benefit from reading this book. This is why I only give it 4 stars.

William Sharpe, who really needs no introduction, has made major contributions to some of the most influential discoveries in financial economics. From his parsimonious diagonal model which simplified the use of Markowitz' normative (prescribing how investors should behave) mean/variance approach to portfolio choice to the positive (describing how investors actually behave) Capital Asset Pricing Model, Professor Sharpe clearly approaches -- even from his earliest investigations - financial economics from a pragmatic perspective. Of course that work contributed to his selection in 1990 as a co-recipient (along with Harry Markowitz and Merton Miller) of The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel.In addition to his academic pursuits, Professor Sharpe has also been commercially successful, as a RAND economist, and as President, Chairman and/or Director of several enterprises related to investments. Of course, practitioners may know him best for his famous "reward-to-variability" ratio which we all know as the Sharpe ratio. Professor Sharpe has also made important fundamental contributions to options valuation, asset allocation implementation, and returns-based style analysis.His pioneering books are standard text assignments for both undergraduate and graduate students of finance; these include Portfolio Theory and Capital Markets (McGraw-Hill, 1970 and 2000), Asset Allocation Tools (Scientific Press, 1987), Fundamentals of Investments (with Gordon J. Alexander and Jeffrey Bailey, Prentice-Hall, 2000), Investments (with Gordon J. Alexander and Jeffrey Bailey, Prentice-Hall, 1999). Now we are fortunate as an industry to have Professor Sharpe's latest book, Investors and Markets: Portfolio Choices, Asset Prices and Investment Advice (Princeton University Press, 2007), available.Investors and Markets is the culmination of a series of three lectures Professor Sharpe gave at Princeton University in May, 2004. The lectures, titled "Asset Prices and Portfolio Choice" are designed to help individual investors make good saving and investment decisions, and Professor Sharpe is the first author I have seen to treat both asset pricing and portfolio choice as a single subject in an attempt to do so. The book is also a nice departure from the well-worn mean/variance framework (which places restrictions on beliefs), relying instead on the state/preference approach (which places restrictions instead on tastes) originally developed by Kenneth Arrow and Gerard Debreu. Although it relies on a discrete-time formulation, one advantage of the state/space framework is that it accommodates both consumption preferences and production outputs. Because there are (literally) an infinite number of future states of the world, closed-form derivations are nearly impossible and simulation is required in this context if we are to achieve equilibrium. To do so, Professor Sharpe built a simulation program called APSIM (Asset Pricing and Portfolio Choice Simulator), which was not available a couple of years ago when the lectures happened but since then he has made freely available on his website, [...].Professor Sharpe’s original Princeton Lectures are organized into 1) Equilibrium, in a single-period setting with homogeneity of investor expectations, 2) Diversity, in a setting where investors have heterogeneous expectations, and 3) Protection, a world in which investors have access to spanning instruments such as principal-protected notes. This is also largely the sequence of the book, which is organized into discussions of equilibrium, preferences and prices in chapters 1-4, which basically comprise Lecture 1; positions (reflecting preferences), and predictions (reflecting disagreement among investors) in chapters five and six, material primarily from Lecture 2, and protection and advice in chapters seven and eight, which is composed mainly of material from Lectures 2 and 3. The book concludes with four simple recommendations for personal investment: diversify as broadly as possible; economize on unnecessary costs; incorporate the circumstances and preferences of the individual client in the portfolio decision; and contextualize portfolio choice vis-ÃƒÂ -vis asset pricing, keeping in mind the distinction between investing versus betting, desire for principal protection, and the potential trading impact of the investor when he or she eventually requires liquidity.In Investors and Markets, Professor Sharpe is "primarily concerned with helping individual investors make good saving and investment decisions - usually with the assistance of professionals such as financial planners, mutual fund managers, advisory services, and personal asset managers." Although this book may prove tough going for the layperson, all professionals in the asset management industry would do well by their clients to buy, read and re-read it ... the clients will certainly benefit.

An important, relatively recent book by William Sharpe, a Nobel Prize winning economist and Stanford business prof. Not for the rank-and-file investor; but much useful information for pros and teachers of finance. Last chapter contains a summary of very useful advice suitable for anyone who invests in stocks.

good new book for good price. of all the books on the subject, this is by far the easiest to read.

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