

the reading room  
the portable financial analyst

review rating



Mark Kritzman is an industry practitioner of great note in the US. He now runs his own investment company, but still plays a role in education – eg, he writes book reviews for the *Journal of Investment Management in the US*; and writes a column in the *Financial Analysts Journal*, “What Practitioners Need to Know.” He has lectured at Columbia, NYU, Stanford and Yale.

Above all, he has that rare gift of explaining tricky analytical concepts in easy to understand terms, when these are usually steeped in technical jargon, algebra and mathematical symbolism. He explains how to apply mathematics and statistics, with common sense in the investment universe.

This book is a compendium of self-contained articles that Kritzman wrote for the *Financial Analyst Journal* and are timeless in their application. In a forward to this book, Peter Bernstein, refers to the voyage from M to M – derived from a summation of capitalism by Karl Marx: capitalists begin with money, invest in capital, and end up with more money than they started with. To quote Bernstein: “In this book, Mark Kritzman has provided us with an operating manual to guide us on this perilous passage through the financial markets from M to M. His essays go to the very core of the investor’s dilemma: how to make decisions in the face of unknown forces without succumbing to helplessness, and how to assert some control over the outcome without succumbing to hubris. Kritzman teaches us that helplessness is unnecessary and that hubris is folly.”

This book was mandatory reading for the Advanced Portfolio Management course in the masters program at the Securities Institute of Australia, and as soon as the cover is opened, it is easy to see why. The text covers very important issues/areas, that uniformly have a technical bent, and which many students might feel red-faced at not fully understanding. If you have often wondered what Monte Carlo Simulation really is, and how it is done, there is no need for any red face – just go to Chapter 15. It is that sort of book. Very few readers will fail to grasp the concepts addressed in this book. Many of the key issues in financial analysis are covered, and are well presented. I am firmly of the view that many industry practitioners find the concept of standard-deviation difficult to grasp – or to retain once grasped. In Chapter 2, dealing with Uncertainty, there is the best explanation of standard-deviation, that I have ever seen, and once mastered (for me, post Kritzman) this will be retained. This is no surprise, as Kritzman says: “over the years I have tried to select topics that I thought were confusing and sometimes controversial, with the hope of instilling clarity and promoting consensus.”

The articles/chapters are self contained, so that you should not need to consult additional references. The chapters/topic are divided into three groups: concepts, methodology (with a “how-to” flavour) and strategy. There are 21 chapters dealing with areas as diverse as: lognormality; return and risk; duration and convexity; serial dependence; regressions, factor methods; volatility; optimization, hedging and currency risk management. Where algebra and formulae are unavoidable, he often uses actual numeric worked examples, and this greatly assists comprehension – as the reader can check the calculations.

For the student of finance, or the serious industry practitioner or investor, this is an invaluable compendium.

**MARTIN EARP**

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