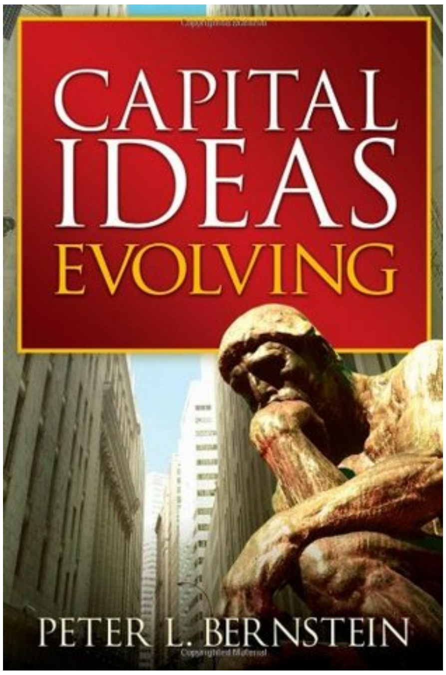

Capital Ideas Evolving

Peter L. Bernstein

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--Andre F. Perold, Professor of Finance, Harvard Business School

Capital Ideas Evolving Details

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From Reader Review Capital Ideas Evolving for online ebook

Denis Vasilev says

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Carlos Peña says

This one comes after Against the Gods, the remarkable history of risk by the same author. A very useful book for any associate in pension funds investment consulting as it describes the context behind all the numbers that an analyst commonly sees while clicking on Morningstar or Bloomberg terminal. It includes many historical references very valuable in case you would like to get deeper into the usage and application of the product. Because, yes, these tools are products offered by different vendors of analytics. 5 out of 5 because Peter Bernstein has it all in his books.

Frank Stein says

This is a sequel of sorts to the author's 1992 "Capital Ideas," but it also functions nicely as a sequel to the Fischer Black biography I just finished. Both earlier books trace the rise of financial theory from Harry Markowitz's 1952 article showing how diversification maximizes returns while reducing risks, through to the Black-Scholes model for pricing stock options. The loci of all these ideas were the Capital Asset Pricing Model (CAPM) and the efficient market hypothesis, both of which seemed to claim that no one could consistently beat the market. The irony of this book is it explains how these ideas about efficient markets spawned an entire world of traders and dealers who used those models to find out exactly how they could beat the market.

At the Yale Endowment Fund David Swenson realized alternative assets like venture capital and hedge funds were often excluded from definitions of "the market," so investors could benefit from over-weighting these. Martin Leibowitz, the absurdly prolific writer and trader at Salomon Brothers and TIAA-CREF, found out that almost all variability in a portfolio came from equities and other assets that varied in their returns along with equities, and thus moving funds to assets like Real Estate Investment Trusts could provide a return that didn't tend to co-vary with stocks. By diversifying in this way he could both lower risks and increase total returns. Even Harry Markowitz himself moved to Wall Street and found that market distortions like the Federal Reserve's Regulation T, which limits short selling, offered inefficient opportunities to exploit.

Here, all the revolutionaries who came to bury Wall Street's work as mere "interior decoration," as James Tobin called it, ended up instead creating a new one. While once they thought dealers only feasted parasitically on an efficient market, now they joined the feast. Their insights that the real value of stocks or bonds is not due to their individual value but how much or how little they "co-varied" with the whole market, often called the asset's "beta," seemed to offer an exciting cornucopia of new investment possibilities. Finding the market's inefficiencies with regard to particular asset's value also allowed them to find more returns than the market would seem to warrant, often called a stock's "alpha." If one wonders how "searching for alpha" became the cynosure of modern stock traders, this book explains it. The other irony of this book though is that by finding all these inefficiencies (such as the under-appreciation of alternative assets), these traders and academics gradually eliminated them, and thus made the market further approach the original theory they all started with.

Of course hanging over this entire book, published in 2007, is the specter of the financial crisis. How efficient were all these financial engineers in the end one has to ask, however important their ideas were? Far too much of this book is also taken up with Bernstein's interviews with these men, and many of these only repeat the same points. The book constantly references back to "Capital Ideas" and is thus something of more an addendum to that book than a true sequel. Yet once again, the ideas here are shown to have both surprising corollaries and relevance, and to have shaped our world more than we would think.

Nilesh says

I read this book along with "The Myth of Rational Markets" by Justin Fox - a great parallel read on the same topic - most recommended. Peter Bernstein's book is rich in history, voluminous in case study details (particularly in its sections on GS, Barclays Global, TIAA-CREF etc) but just not critical enough.

The balance provided by behavioural finance subject discussions in the initial chapters does not go far enough. The book matter-of-factly mentions many of the efficient market theory weaknesses but does not go into discussing their impact.

The book is certainly a must read as one of a collection for anyone interested in the topic. There is not enough written on the history of evolution of efficient market ideas and this book provides a great starting point. Its discussion of the personalities involved and interviews with some of them adds to the value tremendously. Yet, the book falls short of being a classic - may be because the history of this chapter in humanity is anything but over.

May Ling says

There really are very few books that walk through the history of modern financial theory. Most just teach the math. That's a real problem because so much of the math is then out of context of the minds that formulated and what problem they were solving for.

This book is a must read for anyone practicing quantitative finance. It's important to know how long that theory has existed and what it was and not solving for at the time. You'll still have to put it in the context of what was and was not possible with the available computing power, existing languages, and additionally consider what it must have been like without such concepts.

Gerard Cronin says

Smug and clubby, but still a valuable survey.

The author, Peter L. Bernstein, definitely has been around, and shares with us his access to his friends to some of the great thinkers and innovators in finance. If you want to know about the core philosophies of Goldman Sachs or Barlclays Global Investors, Bernstein has friends in high places there, and he tells you what they themselves have to say on the topic.

But, Bernstein's style is quirky and at times distracting. He is obsessed with one particular footnote* to such an extent that you might want to make a drinking game out of it. And there are so many quotation marks around so many of his friends' bon mots, at times it feels like the Zagat guide to modern portfolio theory.

Nevertheless, I did learn that, like me, Andrew Lo was influenced by Isaac Asimov's *Foundation* series. That is classic sci-fi nerd cred that is not easy to come by.

*"Unless otherwise specified, all quotations are from personal interviews or personal correspondence."

Sam Marshall says

It is not clear who Bernstein's intended audience for this book is. He runs through several complex trading strategies without clearly describing how the underlying derivative products work while in other examples he holds the reader's hand explaining some more basic ideas. Most of the stories about the academics in this book are well known within the economics circle, but the stories about the investment managers were new (at least to me). The author leans heavily on the idea of equilibrium towards the end of the book, but I am not sure that he clearly understands what it is or why it is important. It would have been instructive for the author to make a reference to Lucas (1976) or even to read it.
