The Investor's Essential Bookshelf

Constantly, investors ask 'how can I educate myself so I can invest successfully?' Jobs, family, school, vacation, limited knowledge, inertia all limit what people are able to do. The education needs to be concise, and it needs to be accessible in the sense that it can be easily absorbed in small doses and with small investments of time. To be practical, much of this education needs to deal with attitude, point of view and structure, rather than with cookbook methods, so that investors can properly conceptualize what they will need in the dynamic environment of the stock market. Surveying large amounts of material is drudgery and is unnecessary. Hopefully, a little exposure sparks interest, so an investor becomes receptive to what is needed.

The Battle for Investment Survival, by Gerald Loeb, is the first of three core books. It is a compilation of newspaper articles written over many years. First printed in 1935, it has been reprinted many times and is still in print. Mr. Loeb suggests that a speculative attitude and loss cutting comport with safety. The stock market is boundless in its ability to absorb emotion, whim, preference, greed and fear. Investors need to understand that, and how, these things affect both them and the markets. He suggests how to go about segregating these things from the investment process, as well as suggesting 'what to buy, and when' and how to set up an 'ever-liquid account'. He deals with fundamental issues (earnings, balance sheets, news), technical issues (supply, demand and psychological) and personal issues (record keeping, self deception, organizational). He suggests that both knowledge and flair are important; and, lacking either one of these, that finding a professional who has both is important.

Investment Policy, by Charles Ellis, is the second core book, written in 1984 and articulates what goes into a relationship between an investor and a professional investment advisor. Each needs to earn the respect of the other. He delves into the attitudes of investors and of advisors. He covers what subjects need to be discussed, the respective responsibilities, and how to preserve representations by both parties for future review. During the 1980's and 1990's there was a large secular move toward passive investment strategies that he describes from a vantage point early in that trend. He points out that most investment advice was going to be provided by large institutions; and, that these institutions would, in effect, become the market. Efforts by these institutions to beat the market would result in their losing ground to it. Ideas in his book and ideas in Mr. Loeb's book are worthy opponents in the never-to-be-settled debate of passive strategies versus active strategies.

Business Cycles, by Wesley Mitchell, is the third core book. Do not be put off by this title; the book is a gem and fulfills the mission articulated earlier. Mr. Mitchell's book (look for the Bert Franklin 1970 reprint) was written in 1913, a time prior to the advent of econometrics and the resulting oceans of data. It was written as an intuitive guide for businessmen so they might interpret where their businesses stood in the business cycle. Indications need to be interpreted differently at different times between the inception and the fruition of a trend. The book contains the best exposition in print for why trends end – and begin. While many of the terms used in 1913 are archaic, their analogs exist today.

That today's economy is much more complex and diverse than it was in 1913 does not make the structure and logic presented any less useful today.

While the last two books are not in print, they are available in libraries. They are also available where old business books are sold, particularly on the web and occasionally in stores. There are, of course, a few other useful books that a receptive investor would have available; however, these three are the core.

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