

**Fisher, Ken - The Little Book of Market Myths**

Wiley, 2013, [Behavioural Finance] Grade ★★★★★

The Little Book series is now 28 books old and has set out to prove all those early doubters wrong, simply by taking the difficult & complex out of financial matters. It doesn't hurt, of course, to also have contributors such as Joel Greenblatt, John Bogle and Mark Mobius, to name just a few of the Little Book alumni roster. It has indeed become an unstoppable force and has already this year released two new titles. Having read most of the Little Books, I hold Joel Greenblatt's maiden *The Little Book That Still beats The Market* from 2005 as the best one, closely followed by John Bogle's *Common Sense Investing* and James Montier's *Behavioral Investing*. A close contender to the medal podium, however, would be this addition to the series by Ken Fisher. It would be a loss to any investor to dismiss this as another rehash of old arguments. The Little Book of Market Myths occupies a crucial place in a time where the information avalanche has created an "Era of The Narrative", where stories rule the investment landscape and with so many false truths and common knowledges leading people astray.

The author is first and foremost known for his "Portfolio Strategy" column in *Forbes*, which at 28 years and counting puts him at #3 for longest contributor in the history of the magazine. More importantly, however, he is also the founder & CEO of Fisher Investments, having successfully managed tens of billions of dollars for more than 25,000 clients since 1979. The second aspect – in addition to the early tutorial from father Philip Fisher – sets him up as an excellent choice for this particular book. Having staged a reputation as a staunch contrarian and spending the lion's share of his *Forbes*-columns to disprove traditional wisdom, Fisher doesn't lack ammunition. As a reader you get the feeling that the book could have run quite a number of pages longer, had it not been for the strict regimen of The Little Book diet.

The outline of the book is simply seventeen chapters each dealing with a particularly harmful market place myth. Among the highlights are *Bonds*

*Are Safer Than Stocks*, *Volatility and Only Volatility* and *Stop-Losses Stop Losses*. To me, though, *Turmoil Troubles Stocks* (chapter 15) by itself justifies the outlay for the book. Or, more specifically, the table coined "Never a dull moment", listing major world (negative) events since 1934. This is an effort to show the prevalence of the true (?) myth that the strongest markets always climb a wall of worry. What Fisher does well – apart from sourcing the six-page long table – is to put this into context. "*Profit motive isn't sapped because humanity faces challenges. In fact, challenges and the need for innovation can be motivating factors for those willing to take risks to chase future profits. Capital markets are resilient because humanity is resilient*". This is a welcome refresh from the often-used analogy of the market being a cold-hearted monster that devours human suffering. Then, as you feel the author is doing all investors – the full- and part-timer alike – a big favour by enabling us to de-learn false truths, the chapter on the myth of small cap value comes up (*The Perma-Superiority of Small Cap Value*). In it, Fisher tries to debunk one of the more established rules of finance, that over time small-cap outperforms large caps and value outperforms the rest (especially growth). He tries to do it by pointing at huge bid-ask spreads of the 1930s as polluting the data, increased supply of small companies and yearly swings in performance. None is too convincing, and I am left with the thought that the opportunity to shoot down the fattest bird there is in finance was just too compelling of an opportunity to pass up on for this consummate contrarian.

As the financial world is dominated by greed and fear, stories that play on people's emotions have been a cornerstone of markets since long before the tulip mania. So naturally there is a plentiful smorgasbord of myths to choose from. To a very large extent Fisher has selected wisely, but I do wish he had included The Myth of Economic Growth And Stock Prices; The Myth of Forward P/e and Predictability and; The Myth of the Omnipotence of Central Banks. Perhaps that last one will be Little Book # 45 around the year 2020?

Henrik Andersson, March 3, 2014