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Barry Ritholtz

## Apprenticed Investor: More Reading Ideas

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12/7/2005 11:14 AM EST

URL: <http://www.thestreet.com/comment/barryritholtz/10256101.html>

In part 1, we looked at books that are helpful to the "Apprenticed Investor," from the history of markets to investor psychology. Today, we get into the details: economics, technical analysis, short selling, the fundamental approach, life on Wall Street and everything else.

### Wall Street

If you can understand how the crazier things happen on Wall Street, you may avoid some investing pitfalls. These two books offer insight into that arena -- and they could just as easily be filed under how to raise problem children.

Fred Schwed's *Where Are the Customers' Yachts?* or *A Good Hard Look at Wall Street*. Schwed worked on Wall Street for a few years, and his book -- written 60 years ago -- is a delightful read, full of insight into both the Street and investors' psyches.

For those of you thinking about working in the industry, then *Liar's Poker* by Michael Lewis is for you. It provides a snapshot into a major firm circa the 1980s. As much as things have changed since then, they are still very much the same.

### Economics

Understanding where we are in the business cycle -- expansion, plateau, contracting, bottoming -- is crucial to understanding where the markets will be in 6-18 months.

My favorite introductory econ book is Todd G. Buchholz' *New Ideas from Dead Economists*. Buchholz's survey of the history of economic thought is lively and informative. He avoids politics and academic squabbling, resulting in an extremely enjoyable, informative book. That's saying a lot for a subject that in the hands of a lesser writer would be dry and boring. Were I to recommend but one economics book for the layperson, this would be it.

*Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* by Steven D. Levitt and Stephen J. Dubner. This is less a book about economics, and more a book about how to approach challenging problems from a logical perspective. Outside-the-box thinking combined with intelligence, creativity and mathematics makes for a potent combination. But don't let the math intimidate you --

it's a delight to read, and is very accessible to the nonmathematician/noneconomist.

The most serious of the econ books is *Beating the Business Cycle* by Lakshman Achuthan and Anirvan Banerji. Anticipating when the business cycle is about to turn is a trick most economists are exceedingly poor at; Achuthan and Banerji show you how to do it. If you find that the previous two econ books whet your appetite, then consider this your graduate-level reading.

## Technicals

You learn technical analysis not by reading about it, but by looking at thousands of charts over the course of many years. That makes recommending any books on TA challenging. I picked the following because they either illuminated a particular segment of TA or were extremely accessible to the nontechnician.

*Getting Started in Technical Analysis* by Market Wizards author Jack Schwager covers all the basics: moving averages, trend lines, patterns, support and resistance. Another good book to get started with TA is *The Visual Investor* by John J. Murphy. Either of these will give you a broad overview of technical analysis.

My favorite of the new TA books is *Trend Following* by Michael Covel. Straightforward, easy to read, this book is rich in details about why trend following is such a successful strategy amongst some of the world's best-performing hedge funds.

*How to Make Money in Stocks* by William J. O'Neil. O'Neil, founder of *Investor's Business Daily*, created a quantitative and technical-based trading system called CANSLIM. Although I am not a follower of this methodology, it has much to offer to the novice. If you are an *IBD* reader or are curious about his philosophy, this book is a good place to start.

I've read several books that *RealMoney's* Gary B. Smith has recommended, including *How Charts Can Help You in the Stock Market* by William L. Jiler, and *How I Made 2,000,000 in the Stock Market* by Nicolas Darvas. I would suggest both of them to readers who want more details and background to how several successful technicians have made their fortunes in the past.

I occasionally find myself looking at a chart and wondering what the heck it means. That's why I have a small reference library on my desk. It includes:

- *Technical Analysis from A to Z* by Steven B. Achelis;
- *Encyclopedia of Chart Patterns* by Thomas N. Bulkowski;
- *Japanese Candlestick Charting Techniques* by Steve Nison;
- *Technical Analysis of the Financial Markets* by John J. Murphy.

Don't think you need a full reference library; all you need is one reference book to help you occasionally.

## Short Selling

Surprisingly, there haven't been too many books on shorting -- or even on the art of selling. One I like is Sy Harding's *Riding the Bear: How to Prosper in the Coming Bear Market*. It came out in late 1999 -- how's that for auspicious timing! If the "buy & hold" investors

had read this back then, they would have saved a lot of money. It's just as sensible today.

Another well-timed book is *When to Sell* by Justin Mamis. This was published in 1929(!). It's a bit slow going, but is filled with good observations about developing a sell strategy.

A basic approach to shorting is William J. O'Neil's *How to Make Money Selling Stocks Short*. Pure fundamentalists should be forewarned: it is very technically driven, and may be hard going for those with an aversion to charts. That's just as well; fundamentals can tell you *what* to buy, sell or short -- but not *when*. And timing is especially crucial when it comes to shorting.

## **Fundamentals**

Given my inclination towards quantitative, trend, sentiment and macro economics, I am admittedly an outsider on pure fundamentals. But I have found these books to be valuable additions to my knowledge base.

*Stocks for the Long Run* by Jeremy Siegel is a terrific overview of all things equity. It's a great place to start, although many fundamentalists would advise you to begin with *The Intelligent Investor* by Ben Graham, which is considered the bible of value investing.

I find Warren Buffett intriguing. His annual reports are legendary; reading them is an education in itself. Start with *Warren Buffett Speaks: Wit and Wisdom from the World's Greatest Investor* by Janet Lowe. If you want the unvarnished words from the man himself, then choose *The Essays of Warren Buffett: Lessons for Corporate America* by Warren E. Buffett.

I would be remiss if I left out Peter Lynch. You can read any of his books, but I like *One Up On Wall Street: How To Use What You Already Know To Make Money In The Market*. Lynch shows how people can use their own experience to gain an edge on Wall Street. (We discussed this last year.)

One of the reasons I am not a fundie is that I don't do forensic accounting (bor-ing!). However, a readable approach to getting at those footnotes is *Financial Fine Print* by Michelle Leder. Those of you who are technically oriented may find this is a tough slog.

## **Supplemental**

There were lots of worthwhile books that didn't make the cut for one reason or another. Some of them -- like *Bull's Eye Investing* by John Mauldin were a bit too advanced for the apprentice. Others cover a single topic. If the entire book can be adequately summed up in one line, then I can save you eight hours.

*Irrational Exuberance* by Robert Shiller (Jeremy Siegel is wrong: markets are risky, stocks are over-priced.)

*Fooled by Randomness* by Nassim Nicholas Taleb (Markets are very random; watch out for black swan events.)

*The Tipping Point: How Little Things Can Make a Big Difference* by Malcolm Gladwell. I thoroughly enjoyed this book, but if you

want to save time, the punch line is that complex systems are nonlinear.

The Wisdom of Crowds by James Surowiecki. The book is thought-provoking and interesting but, unfortunately, I found too many logical flaws in it; further, it seems to be too tied to the efficient market hypothesis. (Bottom line: The crowd is right until they become an unthinking mob.)

Common Sense on Mutual Funds: New Imperatives for the Intelligent Investor by John C. Bogle. (Wall Street charges too much, you are a lousy investor anyway, buy index funds.)

Chaos by James Gleick. Want to understand the mathematical science -- physics, actually -- of what really drives the market's behavior? Then this book is for you. (Bottom line: Markets are not truly random, but have qualities which include persistence, sensitivity to initial conditions and nonlinear dynamics.)

The (Mis)Behavior of Markets by Benoit Mandelbrot. Chaos theory as applied to markets by fractal geometry's creator. Warning: this book may make your head explode.

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*Barry Ritholtz is chief market strategist for Maxim Group, where his research and market analysis are used by the firm's portfolio managers and clients in the U.S., Europe and Japan. He also publishes The Big Picture, his macro perspectives on the economy and geopolitics, entertainment and technology industries, and is a member of the board of directors of Burst.com, a streaming media software company. At the time of publication, Ritholtz had no position in any securities mentioned in this column, although holdings can change at any time. Under no circumstances does the information in this column represent a recommendation to buy or sell stocks. Ritholtz appreciates your feedback; [click here](#) to send him an email.*

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