



# Bradley, Foster & Sargent, Inc.

## Quarterly Market Commentary

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### **Fourteen Business Classics That Can Help You to Better Understand Wall Street and the Stock Market**

It is personal preparation, as much as knowledge and research, that distinguishes the successful stock picker from the chronic loser. Ultimately it is not the stock market nor even the companies themselves that determine an investor's fate. It is the investor.

*One Up on Wall Street*, Peter Lynch, 1989

From time to time, some of our clients ask us to recommend books so that they can further their knowledge and understanding of business and the stock market. Of course, literally thousands of books have been written over the past century in this genre. There are many books that promise surefire ways to make you rich through following a certain methodology in investing in the market. And there are books that teach how to speculate or use options. There are books which explain how to use charts, and there are perhaps more that concentrate on the fundamentals of investing. And then there are those which promise success by focusing on certain industries which are in vogue such as biotechnology or cybersecurity.

In this investment commentary, we thought it might be helpful to present a list of books about various aspects of the stock market, business and Wall Street with a brief synopsis of each book. The list includes books about how to invest, how to speculate and trade stocks, and information and data about the stock market's historical returns both here and abroad. We have also included three witty and compelling books about the customs and the culture of investors in the capital markets. And finally, we have included two biographies and one autobiography of several of the great captains of finance and industry in America.

Most of the books on this list have stood the test of time and have become classics. We trust that you will find enjoyable and profitable reading in these 14 books.

#### **How to Invest in the Stock Market**

*The Intelligent Investor* – by Benjamin Graham

This classic book by British-American economist, author and professor Benjamin Graham was called by Warren Buffett “by far, the best book on investing ever written.” It was first published in 1949 and revised in 1971. Starting teaching at Columbia University in 1928, Graham teamed up with David Dodd to write the well-known *Security Analysis* in 1934, which reads like a textbook on value investing. *The Intelligent Investor* was intended for nonprofessional investors and also focused on value investing. Graham emphasized concentrating on the actual performance of companies and the dividends that they pay rather than the ever-changing sentiments of the stock market. Importantly, he advocated for an investment approach in purchasing stocks with a “margin of safety,” meaning that the market price

of a stock is theoretically below the intrinsic value of the stock when purchased. U.S. growth stocks have performed better than value stocks in the past decade, but over longer periods, value stocks have outperformed growth stocks.

*The Battle for Investment Survival* – by Gerald M. Loeb

Beginning his career in the securities business in 1921 at the age of 22, Gerald Loeb wrote this investment classic in 1935, revising it frequently with the last edition in 1965. One of the most famous passages in the book, which we have quoted in a previous investment commentary, is the following: “Market values are fixed only in part by balance sheets and income statements; much more by the hopes and fears of humanity; by greed, ambition, acts of God, invention, financial stress and strain, weather, discovery, fashion and numberless other causes impossible to be listed without omission.” Loeb is best known for his statement: “The greatest safety lies in putting all your eggs in one basket and watching the basket very carefully. No permanently safe, ideal investments exist.” Loeb believed in cutting losses quickly and often maintaining large amounts of cash rather than keeping all his assets in equities.

*Investing the Templeton Way* – by Lauren C. Templeton and Scott Phillips

This book was written by John Templeton’s grandniece and her husband in 2008, and it chronicles Templeton’s remarkable investment career. One of Templeton’s most famous quotes is: “Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria. The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell.” Templeton’s most famous trade was when, following his own advice in 1939 at the onset of World War II, he borrowed \$10,000 from his former boss and instructed his broker to buy every stock on the New York Stock Exchange trading for less than \$1 (including those companies in bankruptcy). Templeton, who believed in diversification, bought 104 stocks then. Of the stocks he bought, all but four showed a profit when he sold them four years later for approximately \$40,000. Templeton was also early in global investing, buying Japanese stocks at amazing bargains in the early 1960s. Later he made a killing in South Korean equities in the late 1990s. Templeton believed in buying straw hats in the winter and is one of the great all-time investors.

*The Money Masters* – by John Train

Financial advisor John Train wrote this book in 1980, recounting the lives of nine hugely successful investors and how they made their money. In addition to Benjamin Graham, Warren Buffett and John Templeton, Train writes about T. Rowe Price, Philip Fisher, Paul Cabot and Larry Tisch. Both Price and Fisher focused on growth stocks, and the book chronicles how both of them believed in investing in quality growth companies and holding the stocks for long periods, as the earnings and returns compound favorably. Cabot and Tisch functioned more as opportunists, investing in growth, value and turnaround companies. Readers will find the book useful in helping them to adopt an investment approach which conforms to their own character and approach.

*One Up on Wall Street* – by Peter Lynch

Most investors know about Peter Lynch – one of the most successful fund managers ever. He managed Fidelity’s Magellan Fund for thirteen years, beginning in 1977. The fund earned an annualized return

of 29.2% during this period – more than double the total return of the S&P 500 during this same period. In his book, Lynch stresses investing in companies that you come in contact with in your daily life – at the shopping mall, in business, at school, etc. He emphasizes knowing what you own. The book is a treasure, as Lynch discusses dozens of companies that he owned which were five or ten baggers as well as some of his most egregious mistakes. For those interested in picking their own stocks, this book is worth reading and re-reading every few years.

## **How to Speculate and Trade Stocks**

*Reminiscences of a Stock Operator* – by Edwin Lefèvre

In 1923, Edwin Lefèvre wrote this now famous book – a thinly disguised biography of the legendary stock market speculator and “operator” Jesse Livermore and his exploits in the financial markets. In the early part of the 20th century, Livermore, who left school at the age of 14, developed groundbreaking speculative trading methods which are still used by traders today. Paul Tudor Jones, currently one of the most successful U.S. hedge fund managers with assets under management of over \$14 billion, hands a copy of *Reminiscences of a Stock Operator* to every new employee at his firm. Starting with no capital, Livermore accumulated many millions of dollars on three separate occasions but subsequently lost it all. In the horrific 1929 stock market crash, Livermore cleared \$100 million in his short positions but later saw it all go to zero in speculating poorly during the 1930s. His trading rules, which include taking losses quickly and never averaging down, are employed by many investors as well as traders today. It is another book which bears re-reading every few years.

*Confessions of a Street Addict* – by Jim Cramer

If you are an investor today, it is hard not to know about Jim Cramer, the infamous host of “Mad Money” on CNBC who happens to resemble Vladimir Lenin. He has written six books about how to speculate and invest in the stock market, but *Confessions of a Street Addict* is his autobiography. It takes the reader from his time at Harvard, when he was editor-in-chief of *The Harvard Crimson*, to his brief career as a journalist, then his years at Harvard Law School, his short stint as a broker at Goldman Sachs, and finally his years between 1987 and 2001, running his own hedge fund. At its peak, his hedge fund reached \$450 million – small by most standards, but the fund’s 24% annual average return for the 14 years he ran it is impressive. The book is intense, hard-hitting, funny, self-critical and coarse. But it gives an unforgettable picture of short-term trading and speculation on Wall Street. A typical quote from the book: “Part of our great strength at the company was the recognition that investing is almost all psychological and very little substance... We know that Wall Street is more a fashion show, short term, than an exercise in rational pricing and capital allocation.” The book is the good, the bad and the ugly about Wall Street and hedge funds.

## **The History of Stock Markets – Both the U.S. and Abroad**

*Stocks for the Long Run* – by Jeremy Siegel

Jeremy Siegel, a professor of finance at the Wharton School at University of Pennsylvania, first wrote this outstanding history of stock markets in 1994, and it has been repeatedly updated, with the most recent publication in 2014. The book provides voluminous data about the many aspects of the U.S.

stock market including stock and bond returns since 1802. It discusses large cap and small cap, as well as value vs. growth stocks, and it provides large amounts of data about international stock markets. It provides concrete evidence that over the long term, U.S. equities have performed far better than bonds. It is an invaluable guide to the history of stock markets both here and abroad, and it also provides strategies to enhance returns and moderate risk.

## The Customs and Culture of Wall Street

### *The Money Game* – by Adam Smith

*The Money Game* was written in 1968 by an investment professional using the nom de plume Adam Smith. The book was an overnight sensation and a best seller for years. It chronicled in an enjoyable and knowledgeable manner the way Wall Street works and the various types of professional investors and money managers who inhabit this world. Many tried to guess who Adam Smith was, and it was only some years later that it became known that the author was St. Louis-born George Goodman – a graduate of Harvard and a Rhodes Scholar at Oxford, who later joined the U.S. Army Special Forces in 1954 in the Psywar intelligence group. Economist Paul Samuelson called the book “a modern classic.” The book is extremely witty and amusing, describing investors as different as John Maynard Keynes, Mr. Johnson (Edward C. Johnson II, the founder of Fidelity Investments) and Scarsdale Fats, whose pastrami lunches brought many of Wall Street’s money managers together each week. There are wonderful anecdotes about the Gnomes of Zurich, the Great Winfield who speculated and lost in cocoa futures, and Poor Grenville, who was caught with \$25 million in cash in the mutual fund he was managing when the bull market took off. The most amusing portion of the book deals with stories about what motivates various types of brokerage firm clients to own stocks and how they act in different markets. The book is largely about the human side of investing rather than security analysis. It is a marvelous read and every bit as applicable now as it was when it was first written.

### *Liar’s Poker* – by Michael Lewis

Michael Lewis is a superb storyteller. He has written a dozen or more books, and at least three of them have been made into movies: *The Blind Side*, *The Big Short*, and *Moneyball*. *Liar’s Poker* was his first book – and almost entirely biographical. Majoring in art history at Princeton, Lewis briefly worked in a New York art gallery but soon left for the London School of Economics. In 1986, he was hired as a management trainee by Salomon Brothers. Upon completion of the training course, which is described in hilarious detail, he became an institutional bond salesman. The title of the book comes from a legendary but perhaps apocryphal incident on the Salomon trading floor, when Chairman John Gutfreund challenged Head Trader John Merriweather to one hand of liar’s poker as follows: “One hand, one million dollars, no tears.” After explaining how the game works and the psychology involved (including an attempt at intimidation by one’s boss), Lewis relates that Merriweather allegedly answered: “No, John, if we are going to play for those kinds of numbers, I’d rather play for real money. Ten million dollars, no tears.” Gutfreund replied, “You’re crazy,” and walked away. The book is filled with similar stories and anecdotes about the greed and ambition of young bond traders. The stories could come straight from Tom Wolfe’s brilliant novel, *Bonfire of the Vanities*. In 1987, the chaotic capital markets caused Salomon Brothers to ask Warren Buffett to invest \$700 million to shore up its balance sheet. Lewis describes in great detail the events during the Crash of 1987 and Salomon’s firing a large number of its class of 250 trainees – its largest class ever. *Liar’s Poker* is a

ringside seat to the hubris and vanity of Wall Street – a fascinating and amusing but cautionary tale for both retail and institutional investors.

*The Big Short* – by Michael Lewis

*The Big Short* is the captivating story of a handful of hedge fund managers and speculators who bet on the U.S. housing market crash during the great Financial Panic of 2007-2009 and made billions. The compelling narratives of real-life market movers Michael Burry, Steven Eisman, and John Paulson, as well as millennial speculators such as Jamie Mai and Charlie Ledley, make spellbinding reading even when dealing with arcane subjects like short selling and collateralized debt obligations. It is a great yarn about the small number of people who were prescient about the housing bubble that expanded in the first decade of this century and had the courage to go against the crowd and reap enormous rewards. There are many culprits in the story – the banks, the rating agencies, U.S. Department of Housing and Urban Development which forced Fannie Mae and Freddie Mac to lower their lending standards, and real estate buyers who often took on far too much debt, counting on ever-increasing housing prices. In this story filled with dark humor, Lewis writes about a handful of really unlikely heroes, fashioning a compelling history of the financial debacle which shook the U.S. and eventually the entire world. And, as is so often the case, the book is much, much better than the movie.

**Great Biographies of American Entrepreneurs and Investors**

*Titan* – by Ron Chernow

Ron Chernow has written a series of outstanding biographies, and is perhaps best known for his biography of Alexander Hamilton, which was made into an award-winning musical in 2015. But he has also penned four biographies on businessmen and financiers, and his biography of John D. Rockefeller, Sr., entitled *Titan*, is a superb one, recounting in 676 pages the story of one of the greatest businessmen and philanthropists that America ever produced. Rockefeller was born the son of a charismatic, bigamous, snake-oil salesman and a pious mother, and from his rustic origins he became the world's richest man by creating the powerful and feared Standard Oil. At one time, the company refined and marketed 90% of the oil produced in America. But in the two decades before electricity, the price of kerosene used for lamps dropped 70%. Dressed carefully in a dark suit and tie, Rockefeller walked the streets of Cleveland for months during the summer of 1855, looking for a job as a clerk or bookkeeper so he could utilize his gifts in math. Finally, he got his break on September 26, 1855, and he celebrated that day every year as “Job Day” with greater joy than his birthday. At the age of 18, he quit his job and went into business for himself, starting as a merchant and trader. He was never short of money because bankers and investors would lend him money and invest with him because of his sterling reputation as a man of the highest character and ethics. Chernow chronicles how Rockefeller never owned more than 30% of Standard Oil, and that he led by consensus. His rule in business was never say “I,” always “we.” Chernow describes how Rockefeller was greatly smeared by muckrakers such as Ida Tarbell, who called Rockefeller a “robber baron.” Her father and brother had lost out to Rockefeller in the oil refining business, so she had an axe to grind. Chernow goes into detail about Rockefeller's philanthropic activities which he pursued well before it became fashionable. From his earliest days, he gave away ten percent of his salary to the church, and when he was 20, he was instrumental in paying off his church's mortgage to save it from bankruptcy. He and his wife donated money in 1883-1884 to establish and operate Spelman College in Atlanta for young black women,

many of whom were born in slavery. He also gave major gifts in 1890 to what is now Bacone College in Oklahoma, a college for Native Americans, as well as funding the creation of the University of Chicago. Moreover, he gave \$61 million to the Rockefeller Institute for Medical Research, leading to, among other things, the cure for yellow fever. In relating the story of Rockefeller, Chernow provides great insight into the era of great industrialists in America from the end of the Civil War until World War I. *Titan* is the story of a remarkable businessman and philanthropist and is well worth the read.

*My Own Story* – Bernard M. Baruch

Four years ago, we wrote an investment commentary on Bernard Baruch – a hugely successful investor, speculator, financier, and advisor to several U.S. presidents. Not wishing to retell Baruch’s entire story here, his autobiography is a story of how a man with no capital, through trial and error, created a large fortune. Born in 1870, he accumulated most of his wealth between 1890 and the beginning of World War I in 1914. He created his fortune by using his wits, understanding people, and gauging risk properly. And he did this at a time when one could borrow up to 90% on stocks in a margin account. Borrowing liberally on occasion, he amassed a small fortune before he was forty – but not before making no profits at all for some years, as he was learning mostly through his mistakes. Being Jewish and subject from time to time to discrimination, he nonetheless loved his country, writing as follows: “Above all, I have told my children not to be blind to the greatness of America by the pettiness of some of the people in it. The men who wrote the Declaration of Independence were wise in this regard. When they came to define what they conceived as man’s “inalienable rights, they chose the words carefully – ‘life, liberty and the pursuit of happiness.’ Not ‘happiness’ but the ‘pursuit of happiness.’ They made no promise of Utopia. They promised only the opportunity to better one’s living ... The priceless heritage which America has given us – the heritage which is America – is this opportunity of being able to better oneself through one’s own striving. No form of government can give a person more than that.” He led an exemplary life and died a greatly admired elder statesman at the age of 95.

*Steve Jobs* – by Walter Isaacson

In 2012, we used Walter Isaacson’s superb biography to relate the story of Steve Jobs and the DNA of Apple, Inc. The book was based on more than forty conversations that Isaacson had with Steve Jobs as well as a multitude of interviews with family, friends, and enemies whose lives intersected with Jobs. Jobs surprisingly gave Isaacson complete control over the book and did not even ask for the right to see it in advance. His wife also did not request any restrictions on the book. So, it is a remarkably frank, unvarnished account of the life of Steve Jobs. It recounts the good, the bad, and the ugly. It chronicles the genius of Steve Jobs in detail but does not whitewash his many character flaws and his dark side. The story of his life reads like a modern-day Dr. Jekyll and Mr. Hyde; only in Jobs’s case, very little in his life was hidden. He was a business genius but also an extreme narcissist and a bully. In telling the story of Steve Jobs, Isaacson also paints fascinating portraits of the hippie revolution of the 1960s and 70s, the Silicon Valley culture, and the remarkable trajectory of Apple, Inc. – now the company with the largest market capitalization on the planet. In short, it is an outstanding book and a great read about a truly remarkable businessman who seemed to know what the consumer wanted before it was invented.

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*Investment Management*

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