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EDITORIAL

Exuberant Irrationality: Judging Financial Books by their Covers

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Never read a book that is not a year old.
- Ralph Waldo Emerson

Name any month and year and there is a publication by a market pundit forecasting a bullish equity market and another forecasting a bearish equity market. The good thing about having forecasts on both sides of the market is that one of them is always right. Additionally, forecasts occasionally fall on an inflection point, in which case fame is not far away for the genius who formulated the prophesy. Either way, if vocal enough about the market forecasts, a book deal and regular appearances on CNBC are not far away.

This is not necessarily to say that it is purely luck that drives published market forecasts—there are surely professionals who have a better idea of market trends than others. However, given the apparent randomness of market forecasting models and the history of the market, the geniuses seem to remain silent.

Market forecasts pervade financial magazines, academic journals, financial TV and popular market books. Financial books are interesting since they are often widely available, distributed with fanfare and are made to be accessible to all investors. While professionals may haughtily scoff at these books, they often contain some pearls of wisdom along with the generalities of investment lore. Furthermore, some of these books have come, perhaps coincidentally, at a time when their advice was well heeded.

The last three decades have been marked by many books that could easily change investor behavior. Often their titles alone are enough to be repeated with excitement in the financial media. These books are designed to alarm by having titles that suggest doom or boom in the future. They may have a very short shelf life but will often "fly off the shelves" when purchased by investors who are panicked, worried or simply confused. Once proven correct or incorrect by history, the literature is typically forgotten. We believe that it is worthwhile to reopen those now obsolete books and analyze a whole genre of financial literature: the "shock" financial book.

The Process

Given the quantity of books on financial investing with their catchy titles, we have reviewed titles over the past 40 years with the help of our own bookshelves, our recollections and search engines on the internet at the Library of Congress, Amazon, Google and others. We chose every book we could find with a title that contained a shocking market forecast without prejudice to direction—our goal was to find literature that could change investor behavior by the mere reading of their title.

While not exhaustive, we found over twenty books whose titles seemed to catch the spirit of their era, or at least their nano-second. We have literally judged these books by their covers.

Some books offered doomsday forecasts like:

> Hyperinflation of the dollar is likely to occur *within* this decade [Smith, 1980] (italics are the author's)

> In 1995, the United States of America, as we know it today, will cease to exist [Figgie, 1992]

> The U.S. has lost control of its financial markets to foreigners, and run out of easy policy fixes [Shilling, 1988]

Others are more bullish:

> New tools predict the greatest boom in history [Dent, 1993]

> Well-Researched Strategies to Soar with the Dow to 40,000-and Beyond! Date: June 2, 2016. [Elias, 1999]

While these exclamations may have exaggerated the outlook, there may be some information in their timing. Readers may want to read books that confirm

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their own feelings, and publishers are eager to satisfy them. It is well known that investors tend to forecast the future with a rearview mirror instead of a crystal ball. In September 1999, a Gallup poll of investors predicted 13.2% returns on the market when returns in the previous twelve months were 39.8%. Then, two years later, their prediction was for returns of 6.3% when the prior twelve months had delivered a decline of 24.4% [Statmann, 2001].

Our titles are summarized in Table 1, which shows that several authors seem to have been "perma-bulls" or "perma-bears". Harry Dent, for example, published three bullish books in 1993 (good call), 1998 (too optimistic) and 2004 (early perhaps), while Robert Prechter published three bearish books, in 1997 (too early), 2002 (a little better) and 2003 (too late). Viewed through lenses of 20/20 hindsight, these books' titles alone are entertaining. The titles also convey market sentiment at the time and funnily enough, show that most are completely wrong. The authors who wrote books that were accurate seemed to be given second book deals, and these second forecasts were generally wrong although useful as a contrary signal.

A final observation regarding titles is that sub-titles seem to be expected these days, allowing the opportunity to hit several key buzzwords with a single book. One could imagine a book titled: "Survive the Bust and Prosper from the greatest tidal wave Boom in our Age: How Deflation, Depression and Panic will create the greatest exponential Bull Market and Bubble ever!"

Turning to the books themselves, Table 2 shows the list in chronological order. We believe these books rep-

Table 1. *Dates of Publication, Titles and Authors of Financial Forecasting Books*

Date	Title	Author
Jun-64	Dow 1000: The Exponential Secret of the Great Bull Market.	Benton W. Davis.
Jun-66	Dow 2000: The Exponential Secret of the Great Bull Market	Benton W. Davis.
Oct-72	Limits to Growth	Club of Rome
Oct-76	The Crash of '79	Paul Erdman
Nov-80	The Coming Currency Collapse and What you Can Do About It	Jerome F. Smith
Jan-82	Dow 3,000	Thomas Balmer
Aug-85	The Great Depression of 1990	Ravi Batra
Sep-85	The Warning: The Coming Great Crash in the Stock Market	Joseph E. Granville
Jan-88	The Panic of '89	Paul Erdman
Mar-88	After the Crash: Recession or Depression?	A. Gary Shilling
Oct-89	Surviving the Great Depression of 1990	Ravi Batra
Apr-92	Bankruptcy 1995: The Coming Collapse of America and How to Stop It	Harry E Figgie Jr.
Jan-93	The Great Boom Ahead: Your Comprehensive Guide to Personal and Business Profit in the New Era Prosperity	Harry Dent
Dec-97	At the Crest of the Tidal Wave: a Forecast for the Great Bear Market	Robert R. Prechter
Apr-98	Roaring 2000s: Building the Wealth and Lifestyle you Desire in the Greatest Boom in History	Harry Dent
Jun-99	Dow 40,000	David Elias
Sep-99	Dow 100,000: Fact or Fiction	Charles W. Kadlec
Sep-99	DOW 36,000: The New Strategy for Profiting from the Coming Rise in the Stock Market	James K. Glassman, Kevin A. Hassett
Sep-99	The Crash of the Millennium: Surviving the Coming Inflationary Depression	Ravi Batra
Mar-00	Irrational Exuberance	Robert J. Shiller
Sep-00	The fourth mega-market, now through 2011: how three earlier bull markets explain the present and predict the future	Ralph Acampora
Jun-02	Conquer the Crash: You Can Survive and Prosper in a Deflationary Depression	Robert R. Prechter
Oct-02	Rich Dad's Prophecy: Why the Biggest Stock Market Crash in History is Still Coming	Sharon Lechter
Dec-02	The Great Bust Ahead: The Greatest Depression in American and UK History is Just Several Short Years Away. This is your Concise Reference Guide to Understanding Why and How Best to Survive It	Daniel A. Arnold
Apr-03	The Coming Crash in the Housing Market: 10 Things You Can Do Now to Protect Your Most Valuable Investment	John R. Talbott
Jul-03	The Coming Economic Collapse of 2006: Trends, Predictions, & Prognostications for 2004–2006 and Beyond	Michael Mandeville
Sep-03	How to Profit from the Coming Real Estate Bust: Money-Making Strategies for the End of the Housing Bubble	John Rubino
Nov-03	Conquer the Crash: You Can Survive and Prosper in a Deflationary Depression, Expanded and Updated Edition	Robert R. Prechter
Sep-04	The Next Great Bubble Boom: How to Profit from the Greatest Boom in History, 2005–2009	Harry S. Dent
Dec-04	The Coming Collapse of the Dollar and How to Profit from It: Make a Fortune by Investing in Gold and Other Hard Assets	James Turk, John Rubino
Feb-05	Are You Missing the Real Estate Boom? : Why Home Values and Other Real Estate Investments Will Climb Through The End of The Decade - And How to Profit From Them	David Lereah
Mar-05	Irrational Exuberance: Second Edition	Robert J. Shiller

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resent a genre, which can provide the framework for a holistic investment strategy, using popular stock-market books as an asset allocation tool. We do not wish to discredit any of the authors, rather we hope to view popular market literature as a signaling mechanism of prevailing investor sentiment.

Titles of books are powerful. A passerby could see a doomsday title substantiated by 300 pages of text and think "somebody put a lot of research into this, I'll buy it…and call my stockbroker". The most popular title word in our sample is "crash" which appeared eight times, followed by "depression", seven times, "collapse" and "boom", three times each. Other popular words are "panic", "bear", "bust", "bubble" and "bull" (words starting with the letter "b" seem to have an alluring explosive tone to them). Often the payoff was thought to be higher by including several strong words in a single title, such as "crash" and "depression". One author even coined a new term: The "bubble boom". Based on this, we offer Table 3 which is a title generator. It simply requires picking one word from each column to generate a potentially best selling book.

There is a cycle in the tone of these books that seems to relate to the prevailing market moods: Bearish books accumulate after market declines and bullish books after gains. Furthermore, in analyzing their content, recurring themes crop up across the decades. Many of the bearish books cite worries about scarce re-

Table 3. *Shock Finance Title Generator: Choose One Phrase in Each Line to Create Bestseller*

Survive	the Inevitable	Crash	of our Age
Profit from	the Coming	Depression	of the Century
Build wealth in	the Great	Collapse	of the Millennium
Make money in	the New	Bull market	Ever
Stop the	the Biggest	Bust	in the History of our Nation
Prosper from	the Greatest	Bubble	in the History of Mankind
Understand	the Exponential	Bear market	
	the Tidal wave	Panic	
	the Exuberant	Boom	

sources, commodity price increases, the size of government debt, government spending, U.S. loss of control to foreigners, risk to the dollar, the consumer's financial position, third world debt and parallels with 1929:

> Americans had barely survived the 1973–74 embargo, when it only imported 15 percent of its petroleum. Now that it was approaching 50 percent, anything could happen… [Erdman, 1979]

> Inflation is running away and will continue to do so…. Congressmen get elected by promising more spending favors to their constituents [Smith, 1980]

> The U.S. has lost control of its financial markets to foreigners and run out of easy policy fixes… The parallels between the world now and the 1920s are indeed frightening, and the possibilities that a 1930s style depression would occur cannot be completely ruled out. All the safeguards introduced in the 1930s to protect the stock market have been circumvented, perhaps paving the way for another crash. [Schilling, 1988]

> In 1995, the United States of America, as we know it today, will cease to exist. That year, the country will have spent itself into a bankruptcy from which there will be no return… Your parents and grandparents thought the Great Depression of the 1930s was bad. Doomsday 1995 will be worse [Figgie, 1992]

> The real losses could be comparable to the total destruction of all the schools in the country, or all the farms in the country, or possible even all the homes in the country. [Shiller, 2000]

Bullish books often cite long-term stock market growth, technology and comparisons with the 1920s.

> In 1920–1921, as in 2000–2001, we saw massive consolidation and correction in tech companies and stocks." "Now look back at the Intel and General Motors data, which are virtually identical going into the shakeout stage eighty years apart. [Dent, 2004]

> Today, at age 62, Joe still has his money parked in bank CDs. He had missed the entire bull market and all its thousand point milestones. [Elias. 1996]

> Investors have become better educated about stocks… They have learned to hold for the long term and see price declines as transitory. [Glassman & Hassett, 1999]

Advice and Consequences

To examine the success of these books, we looked at the one year, three year and ten year returns on the popular Dow Jones Industrial Average (DJIA). Although the authors may have been forecasting a decade or more of boom or doom, an old saying on Wall Street is "There is no difference between being early and being wrong." Furthermore, the stock market itself is a discounting mechanism; thus, if the conditions projected by the author aren't reflected in the market in one or three years, most readers would feel they deserve their money back.

Over the 40-year period, the market rose, so it is not surprising that both bullish and bearish books were followed by good returns. It is interesting that returns following the publication of negative books were greater than those following positive books. Over ten years after publication, for example, the positive books were followed by returns that averaged 6.1% per year. The negative books, on the other hand, despite their gloomy outlook, were followed by returns of 10.3%! This effect was especially strong during the ten years from1986 to 1995, when the arrival of negative books was a strong contrarian buy signal, as shown in table 4 below.

Some authors were published more than once, and for them, there was a noticeable "curse of success". Benton Davis published two books. His 1964 title, "Dow 1000", was followed by achievement of that level for the DJIA in February 1966. However, in June of 1966, his sequel, "Dow 2000", was released, and unfortunately, given hindsight, it was 21 years too early. Considering the ravages of inflation, even its 1.1%/year ten-year return from the publication date was disappointing. The first bullish book was a good

Table 4. *Dow Jones Industrial Average Performance and Financial Fiction Publication*

	Total # Books	Positiv e Books	Negative Books	Positive Books 1 yr chg	Negative Books 1 yr chgs	Positive Books 3 yr chg	Negative Books 3 yr chg	Positive Books 10 yr chg	Negative Books 10 yr chg
1964–2005	32	9	19	6.1%	10.3%	2.5%	5.9%	6.1%	11.9%
1964–1975	3	2	1	–0.1%	4.3%	0.5%	–3.5%	0.3%	0.6%
1976–1985	5	1	4	23.2%	13.1%	13.9%	8.6%	14.4%	11.6%
1986–1995	5	1	4	19.3%	9.0%	16.8%	11.5%	9.4%	15.1%
1995–2005	19	5	3	2.6%	10.3%	–1.9%	–2.0%	NA	NA

buy signal, while the second was a sell signal. For Paul Edrman, author or several bearish books, the same pattern holds. "The Crash of '79", published in 1976, was correctly bearish and captured the worries of the day. It was a good sell signal over one and three years. On the other hand, his next bearish book, "The Panic of '89", was a contrarian indicator and a strong buy signal, with returns of 20.4% over one year, 14.3% per year for three years and 16.5% per year for ten years.

Harry Dent has published at least three books. Harry Dent's first bullish book in 1993, "The Great Boom Ahead", was an excellent buy signal. His second was late in the cycle, but still had two good years before the top of the bubble. His third, in 2004 is too new to tell. Less successful has been Ravi Batra, who predicted a depression in 1990 twice, in 1985 and 1989. When that didn't happen, he went on to publish "The Crash of the Millennium" in 1999. Although his first two books were wrong, he took credit for predicting the sharp but brief crash in October 1987. Finally in 1999 his timing was right, showing the merits of persistence… if a publisher will stick with you. Robert Prechter, a noted technical analyst, has also published three bearish books, but none has had successful timing. Finally, Robert Shiller has published twice, "Irrational Exuberance" and now "Irrational Exuberance" in a second edition. His first book caught the crest of the technology stock bubble perfectly. It is too early to tell about the second, published in 2004, but it could be a buy signal…

As a general rule, multiple books from the same author do not have an enviable track record. If the first one was correct, the next was probably incorrect. If the first was incorrect, it's a minor miracle that a second or third book emerged at all, but regardless, the author's credibility is doubtful.

The Bookstore Investment Strategy

A look at the timing of our selected books versus the market, suggests that their titles seem to be backwards looking and reflective of the fears or optimism of the times. The cover images are plotted along with the level of the DJIA in Figure 1.

Translating this into a rule for predicting the market is a bit of a challenge, but with sufficient "data-mining" it can be achieved. We looked at the level of the market relative to the book releases, generating a sort of "point-and figure" chart, where the horizontal axis is sequential book releases rather than chronological time. This is shown in exhibit 2. The conclusion is that if you even had a naïve contrarian strategy of buying equities when more bearish titles were published and buying cash when more bullish titles were published, excess portfolio returns would be generated. We went one step further and created a slightly more complicated, yet still simple rule or asset allocation based solely on book titles. This is the "Bookstore Investment Strategy." We figured what the optimal in-sample rule would have been. We assigned points to each book according to the following simple rules.

Buy stocks when the point total score is positive

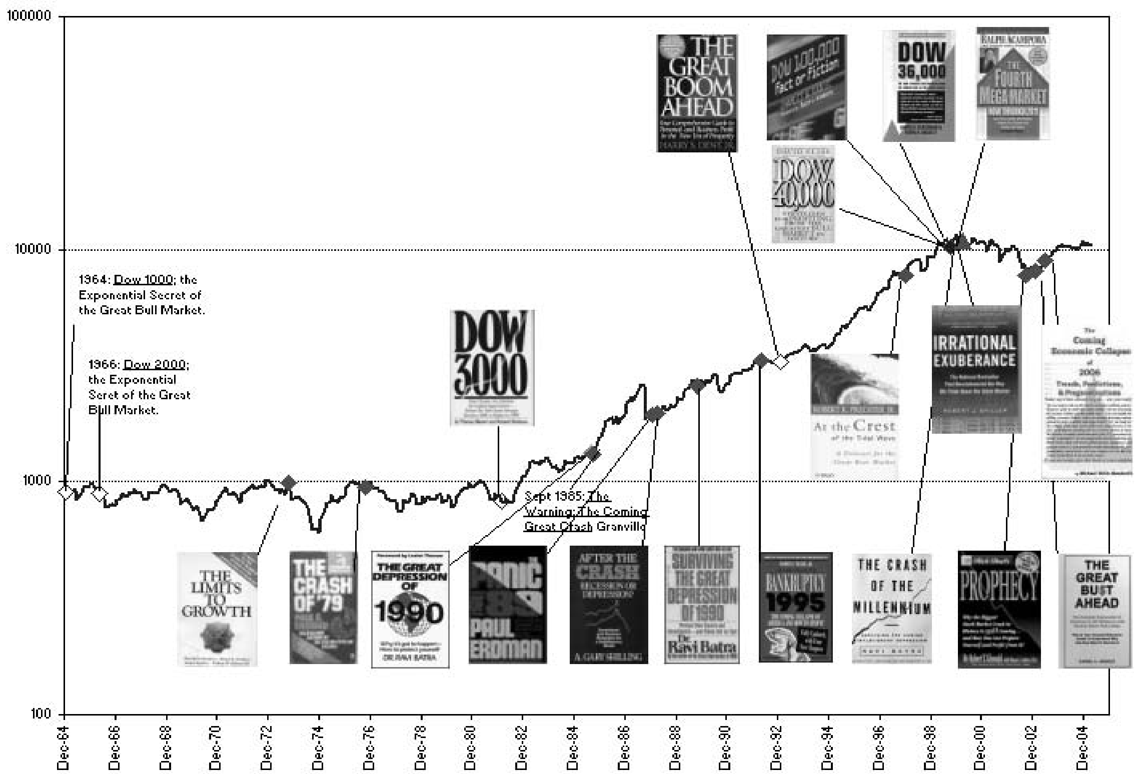
Sell when the point total is zero

1. The first positive (bullish) book after more than one negative book gets three points
2. The first positive book after one negative book gets half a point
3. The next positive books in get minus one point
4. The first negative (bearish) book gets minus one point
5. The second and third negative books get minus half a point
6. The fourth negative book gets plus half a point
7. Minimum score = 0, maximum score = 4

The shaded areas in Figure 2 show the periods when these rules suggest being fully invested in stocks, while the lighter areas represent times when one would hold only cash.

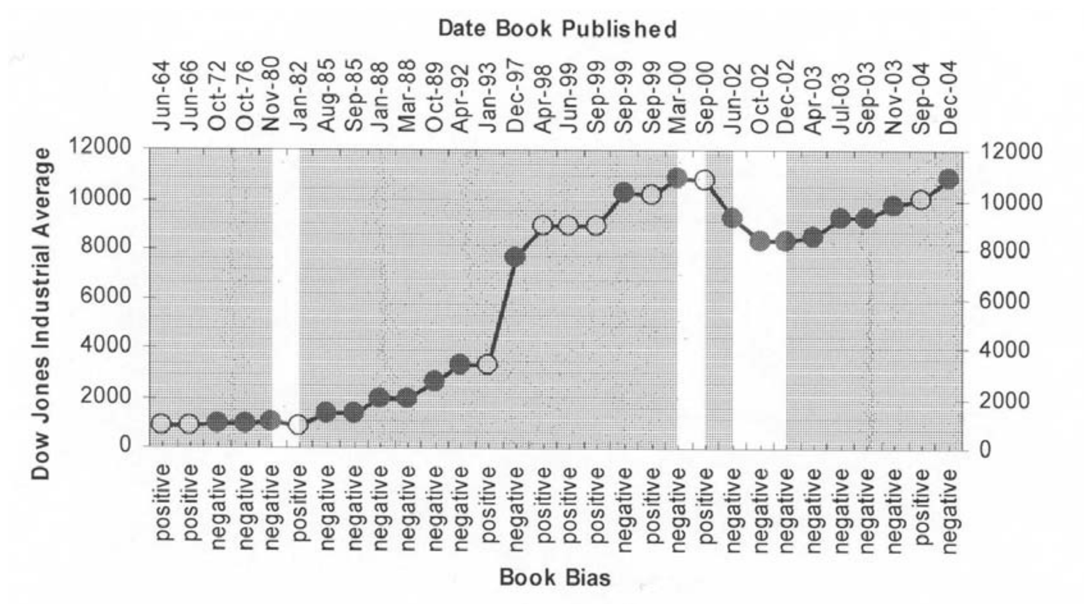
This portfolio strategy generated by the process above results in a 30% improvement in wealth over a naive buy and hold approach. Of course, our rules may represent nothing more than randomness, chance and 20–20 hindsight. And it is possible that they may be undermined by changing dynamics in the publishing business due to the internet, video games and other

FIGURE 1
“Torture by Titles.” Publication of Shock Financial Books and the Performance of the DJIA



Note: Filled Dots Correspond to Bearish or Negative Books. Open Dots Correspond to Bullish or Positive Books

FIGURE 2
Bullish and Bearish Titles, the Dow’s Performance, and the Bookstore Investment Strategy



Note: Filled Dots Correspond to bearish or Negative Books. Open Dots Correspond to Bullish or Positive Books. Shaded Areas Correspond to Bookstore Investment Strategies “Buy” Signal.

phenomena. On the other hand, human behavior is a powerful factor underlying both the popularity of books and the tendency of stocks to go up or down. At times when everyone feels optimistic, there is continuing reinforcement from those books and articles that we choose to read. We simply tend to prefer opinions that agree with ours. At times when investors are optimistic; however, the outlook can become to be too good to be true. When a market decline ensues, a bearish author is likely to be praised for coincidentally "calling the top". The success of this book leads to more like it as well as sequels from the same author. Meanwhile, market declines punish the bulls and give proof to the old saying: "There is no greater bear than a sold-out bull". Reader-investors wallow in self-pity, heightening the popularity of books that reinforce their gloom until the outlook is so grim that the random course of human events leads to positive surprises…. Starting the cycle over once again.

Where are we now? As of the end of June, 2005 our score using the rules above is positive. With titles like "Conquer the Crash", "The Great Bust Ahead" and "The Coming Economic Collapse" still fresh in our memory, this could be a good time to buy stocks. Ralph Waldo Emerson suggested waiting a year before reading a book. Perhaps regarding the stock market, books need to be seasoned longer. "The Great Boom Ahead", "Roaring 2000s" and "The Fourth Mega-Market" are almost ten years old but are still available from used bookstores. They could be just the thing for a profitable investment reading list.

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