Overall, *Climate Risk and the Weather Market* is an excellent collection of material on weather risk management, accessible to beginners in the area, and yet with chapters substantive enough to be thought provoking and informative for the more advanced researcher or practitioner. Most, and perhaps all, good risk managers have a heightened sense of curiosity about a variety of subjects—how else can they identify and understand the multitude of processes in an uncertain, complex world, and then evaluate the potential impacts of those processes on the businesses whose risks they seek to manage. As it says in Chapter 14, "Correct pricing (of weather-linked instruments) must be built on an in-depth understanding of the underlying weather indexes and their correlations. This requires a seamless integration of expertise in meteorology, statistics and finance." In this reviewer's opinion, this book nicely advances that goal.

Financial Analysis: A User Approach, by Gary Giroux, 2003, Hoboken, NJ: John Wiley & Sons

Reviewer: Kevin C. Ahlgrim, Illinois State University, Bloomington

Financial analysis has become more important than ever, as indicated by Gary Giroux in his book *Financial Analysis: A User Approach.* Business activity is accelerating and information is more readily available than in the past, thanks to financial portals on the World Wide Web. This creates an environment where the timely use of data for financial decision are paramount. In the past, the lack of information meant that when making financial decisions, relatively more weight was applied to gut instinct rather than sound analysis. The speed and availability of new information and sound financial analysis allows decision makers to reduce uncertainty and be consistent over time, hopefully leading to better decisions. Giroux's book reviews the steps of financial analysis and highlights some of the major accounting policies that may impact financial decision making.

The text is loosely organized into three major subject areas, although not explicitly partitioned by the author: (1) background and tools, (2) impact of accounting policies, and (3) making the decision.

The first part (Chapters 1–6) races through some background material related to the financial marketplace, the structure of financial statements, and basic ratio analysis. While the first part of the book is meant to complete the content in the area, it is too short and too simple based on the more rigorous discussions that are presented later in the book.

Chapter 1 defines the role of financial analysis and provides a six step, systematic process for making financial decisions. Giroux points out that similar techniques are applied to a variety of problems including lending decisions, capital budgeting, internal performance attribution, and of course, security analysis. The six step financial analysis process can be used for these and similar financial decisions. Many individuals seem to pigeonhole financial analysis into the realm of financial *statement* analysis, but Giroux explains that the subject has more breadth.

Chapter 2 contains a smattering of topics meant to provide readers with background about the financial environment. Specific issues addressed, including regulatory oversight by the Securities and Exchange Commission and the structure of the Financial

Accounting Standards Board, illustrate the accounting bias that permeates the text (Dr. Giroux is in the Accounting Department at Texas A&M University). The presentation of finance is cursory and only scratches the surface of a necessary background in understanding financial markets. In particular, Giroux does not discuss the role of financial intermediaries in the markets and completely ignores the Federal Reserve.

Chapter 3 provides a review of the major financial statements including balance sheet, income statement, statement of cash flows, and statement of stockholders' equity. Chapter 4 discusses financial ratio analysis—employing financial statement data to calculate comparison figures of performance. The author demonstrates ratio analysis with Dell Computer, comparing the results to some competitors (Gateway and Apple) and the industry.

Chapter 4 continues to illustrate the lack of depth of material in the first part of the text. The focus on rote calculations of financial ratios ignores some of the richness presented in even introductory corporate finance textbooks. In particular, there is a section entitled "Limitations of Ratio Analysis." Of the few concerns mentioned in performing ratio analysis, Giroux warns the analyst that the accounting "numbers used are correct," meaning that ratios are only as good as the accounting behind them. While earnings manipulation is an important topic, this is not specific to financial ratios. There are many other limitations that are not mentioned, about which the novice should be concerned. For example, in all of Chapter 4, Dell is benchmarked against two competitors and the industry. Are these comparisons appropriate? What if a company is in diverse industries, like Altria Group, Inc. that owns Philip Morris and Kraft Foods—two different industries? And what defines a "good" ratio? Should liquidity be as high as possible or is there some limit? For example, if a company's liquidity ratios are higher than the industry, is this good or is there some level where there is excessive liquidity?

Chapter 5 reviews multiperiod analysis of financial data by considering trend and growth analysis. The chapter concepts are quite simple; it's surprising that it was distinguished with a separate chapter. To supplement the shortness of the chapter (only six pages, each half-filled with numerical exhibits), Giroux includes significant exercises to practice these simple skills. In fact, there are twice as many pages for exercises, than for discussion.

Chapter 6 looks at incorporating market information into a financial analysis. It is in this chapter when Giroux begins to distinguish this text from similar titles. This chapter contrasts sharply with earlier chapters by providing insight into calculations and warnings to analysts that numerical results are generated from specific assumptions (previously, these warnings were not mentioned). For example, when illustrating the price-to-earnings (P/E) ratio, which is an implied market signal of a company's growth prospects, Giroux shows that the number can be determined in numerous ways. The chapter begins to point out that in many situations, financial analysis does not necessarily lead to only one answer.

In the second part of the text (Chapters 7–10), Dr. Giroux turns to the "softer" side of financial analysis by discussing the effects of accounting policies on financial statements. Chapter 7 provides a primary inspection of a company's accounting policies. A five-step process for evaluating accounting policies for each company is included to help provide a systematic and consistent study of financial reporting. A review of basic accounting policies may explain differences between competing companies. In particular, the chapter discusses aggressive versus conservative revenue/expense recognition and differences between net income and other profit measures such as comprehensive income or free cash flows. The chapter continues the themes of the previous chapter, warning the analyst that numbers can be manipulated and managed, distorting results, and ultimately affecting financial decisions.

Chapter 8 looks at more detailed accounting policies for inventory, taxes, leases, fixed assets, and special purpose entities. Chapter 9 summarizes accounting policies for more complex transactions including accounting for managerial stock options, segment reporting, postretirement benefits (such as pensions), and derivatives. No attempt is made to exhaust the complexity of these recent and rapidly developing issues, but it does provide some introduction for these more difficult accounting subjects. Chapter 10 ends the second section of the book by looking at accounting for mergers and acquisitions.

The third part of the text integrates the previous chapters through two specific financial decisions: (1) Chapters 11 and 12 look at lending decisions and (2) Chapter 13 looks at the stock investment decision. These chapters return to the six step financial analysis process initiated in the introduction of the book. By establishing an explicit perspective (lending or stock purchase), Giroux shows how the preceding chapters' details are pieced together to help managers come to a decision. Since the same company (Dell) is used for illustrative purposes throughout the book, it allows the reader to comfortably consolidate the material and see the relationships among the details.

One of the book's major strengths is its building block approach supplemented with three capstone chapters. Aside from the comprehensive illustration of financial analysis of decisions involving Dell, the exercises in the text also use a common thread. Giroux includes three specific companies throughout the book in the exercises: Hilton Hotels, DuPont Chemical, and Ford Motor Company. Presenting the material in a deliberate, consolidated example is very useful when reaching the pinnacle of the text (Chapters 12 and 13). By using the same companies, the reader can appreciate the interconnectedness of the tools and techniques. The unified examples help to resolve conflicting pieces of information and providing clues for further investigation.

The book does fall short in providing breadth, especially related to finance. In particular, the chapter on the financial environment is too concise. (To be fair, the author admits his goals for the text include a concise presentation and a user approach.) This chapter lacks the richness for financial analysts to appreciate how the operation of financial markets can have an impact on decision making. For example, the discussion of the Capital Asset Pricing Model (CAPM) does not adequately generalize the underlying financial principle involved—in finance there is tradeoff between risk and return. This shortfall could be overcome with a more extensive bibliography so that readers can obtain more information related to background issues should they lack the necessary prerequisites to sift through the material. Currently, there is a dearth of references throughout the text.

Another strength of the book is also one of its weaknesses: its brevity. Defining the audience is the key. Depending on the finance and accounting background of the reader, the book's strong and weak points will be either magnified or diminished. Those with an adequate financial background may find the accounting insights helpful; those with an accounting background may find the text inadequate related to financial issues. Those with neither background would find the text too compact and quite challenging. It should be noted that the author admits in the preface that the book is intended for persons who have some accounting *and* finance backgrounds.

From an editorial standpoint, there are a number of complications. Throughout the text, Giroux states that the data for this section are "provided on the support web site for this text." However, the information is not there. This makes the discussion in the text much less relevant and difficult to follow, since in some places the data are not even reproduced in the text. The book also contains a lot of errors, so that individuals who don't have an introduction to the material may be confused by misstated definitions, incorrect figures, incorrect formulae, and omissions.

Anyone looking to follow an applied financial analysis will find the book an easy read, assuming you have some accounting and financial background. By itself, the book is not meant to be a textbook in a course on financial analysis. However, it could be used to supplement other texts that round out the necessary financial background.

Despite its short length, Giroux's *Financial Analysis: A User Approach* provides a useful application of financial analysis in decision making. For those with the required prerequisites, the book provides an alternative voice for practicing these tools and provides important accounting insights that novices often overlook.