



Models for Investors in Real World Markets

By James R. Thompson, Edward E. Williams, M. Chapman Findlay III

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- * Considers neoclassical models in light of results that can go wrong with them to bring about better models.
- * Questions the assumption that markets clear quickly.
- * Offers a timely examination of the LTCM collapse.
- * Written by a group of well-respected and highly qualified authors.

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Editorial Review

Review

"This volume provides a new, antiefficient markets approach to investment theory and management...a valuable reference..." (*Zentralblatt Math*, Vol.1050, 2005)

"...very readable and highly educational...a good choice for your next investment..." (*Technometrics*, Vol. 45, No. 3, August 2003)

"...examines investment strategies based on risk-neutral probabilities and offers an anti-efficient markets approach to investment theory and management." (*AAII Journal*, August 2003)

From the Back Cover

A uniquely timely look at where modern financial economic theory has failed-and where we should go from here

The collapse of the Scholes-Merton based Long Term Capital Management (LTCM) hedge fund should have sounded alarms or, at least, raised questions about investment strategies based on risk-neutral probabilities. More recently, the fallout of Enron, WorldCom, and similar fiascos must now give pause to those who take the efficient market-based formula for "fair prices" (especially in options and derivatives) as rigid laws.

This provocative volume provides a new, antiefficient markets approach to investment theory and management. Questioning the assumption that markets clear neatly and quickly, *Models for Investors in Real World Markets* considers neoclassical models in light of what can go wrong with them, outlines basic institutional factors associated with how stock markets operate, and then offers ways to bring about better (though never correct) models. Providing a stinging critique of modern financial economic theory, this timely book:

- * Introduces basic concepts of utility theory, the cornerstone of portfolio theory
- * Illustrates why diversification is an important fundamental requirement of rational investment choice
- * Provides a detailed procedure for analyzing securities, borrowing the concepts of Benjamin Graham and David Dodd, and building a quantitative framework for them
- * Examines the importance of compound interest and observes that stock growth may be viewed as noisy compound interest
- * Demonstrates that options are themselves stochastic, risky entities and not magical devices for the elimination of risk
- * Develops a conceptualization of risk profiling based on their development of the simugram. As opposed to the Markowitz approach of maximizing growth subject to acceptable levels of volatility, the authors use the simugram, their computer intensive forecast of the time-indexed density function of portfolio value. Percentiles, rather than expectations, form the major bases for the criterion functions and constraints utilized for portfolio management.

For anyone who has ever questioned-or should have questioned-the efficient market orthodoxy, this book will be a valuable reference on market analysis and investment strategy.

About the Author

JAMES R. THOMPSON, PhD, is the Noah Harding Professor of Statistics at Rice University.

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Users Review

From reader reviews:

Johnny Mosier:

Are you kind of hectic person, only have 10 or even 15 minute in your time to upgrading your mind proficiency or thinking skill perhaps analytical thinking? Then you are receiving problem with the book in comparison with can satisfy your short period of time to read it because all this time you only find book that need more time to be study. Models for Investors in Real World Markets can be your answer as it can be read by you who have those short free time problems.

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