

# Five Great Share Market Books

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By Michael Kemp

I lifted my eyes nervously from the computer screen and glanced across to the wall on the far side of my study. It's the wall that's long since ceased to look anything like a wall. Instead it resembles one of those bookshops in an old English movie; covered from floor to ceiling with more than 600 finance books that I've accumulated over the past four decades.

So why the nervousness? It was the email that I'd just received. I was being invited to write an article recommending the best five finance books from the 600 plus that I was now staring at. Gulp. Where should I start with this one? After all, as they say in the classics, "one man's meat is another man's poison". I feared that any of my favoured recommendations could end up as doorstops.

Fortunately the brief in the email delivered a guide to assist in my selection. It asked for "books that investors could start with". It meant I could immediately ditch those books, even the good ones, which read like final year university textbooks. What then about the subjects to be covered? I recalled something that Warren Buffett often likes to say (you can always rely on Warren at times like this). He's often quipped that if he was running a course on investing he'd have only two subjects on the curriculum. Firstly he'd teach how to value businesses and secondly he'd teach how markets can move. There it was. I was now free from my own quirky preferences. I had my filter.

Keep the recommended books simple, readable, practical and, most importantly, strictly relevant to the most important topics in investing. Here we go!

## **Devil Take the Hindmost** (Edward Chancellor)

Over the centuries the stock market's blackest days have collected names like "crashes" "panics" and "crises" for good reason. The fact is humans share a common feature with their brethren throughout the animal kingdom. And that's to flee in the face of danger whether that danger is real or perceived. Or, in stock market parlance, we panic and sell when the stock market is tanking. And that's usually the very worst thing that you can do.

Experienced investors develop an understanding of when stock market "danger" is perceived rather than real. That experience can be honed by reading, digesting and embedding into your investing consciousness books describing any of the multitude of stock market crashes that have occurred over the past four centuries. Doing so will help meet Buffett's request that you develop an understanding of how "markets can move". But I'll limit my recommendation here to just one book, and here it is:

Edward Chancellor's "Devil Take the Hindmost" covers most of the big crashes that have occurred since the dawn of the modern stock market (back in 1602). First published in 2000 it misses out on the dot.com bust and the Global Financial Crisis of 2008/2009. But neither omission should prove a problem for the reader. That's because both events should be stamped on your recent consciousness anyway. What's more, as you read on, you'll discover there's a powerfully common thread through all stock market crashes anyway.

### **Stocks for the Long Run** (Jeremy Siegel)

I first read Jeremy Siegel's "Stocks for the Long Run" nearly 20 years ago. Reading it made me feel a bit like Archimedes must have. Archimedes was that Greek bloke who, 2,000 years ago, jumped out of his bathtub and ran naked down his hallway screaming out "Eureka".

Seriously, Siegel's book not only answered many questions that I had been asking for years, but it put the whole business of investing into perspective for me. In keeping with that old adage that many people can't see the wood for the trees Siegel lifts you straight out of the investment "woods" and successfully delivers a well-considered long-term perspective on investing that many would otherwise fail to appreciate. Reading "Stocks for the Long Run" also delivers on Buffett's recommendation to develop an understanding of how markets can move.

### **The Little Book that Beats the Market** (Joel Greenblatt)

Ignore the title of this book – it's a shocker. I'd never suggest that reading a 155-page primer could deliver you the smarts to beat the market. But it's a great book for those of you who are starting out and want to get your head around the concept of what a stock is actually worth. It addresses well the second of Buffett's educational requirements – that is how to value businesses.

It's not my preferred book on valuation. That title goes to "Equity Asset Valuation" by Pinto, Henry, Robinson and Stowe. But there's no way I'm going to recommend that book here. Unless you found your honours degree in actuarial studies an absolute breeze or you're a maths geek who topped your class every year at school then you're wasting your money buying "Equity Asset Valuation" (but it could make a great door stop). On the other hand Joel Greenblatt's little book covers the concepts of stock valuation in a way that anyone can understand. And that's why it's my preferred recommendation here.

### **The Most Important Thing** (Howard Marks)

While this is my fourth selection - if I'd been asked for just one book to recommend rather than five - then this would have been it. Howard Mark's book is 180-pages of cover-to-cover investing common sense.

Marks is the battle-hardened founder of highly successful funds management firm Oaktree Capital Management. What's more Marks is read and respected by many of investing's heavy weights – Joel Greenblatt, Seth Klarman, John Bogle and Warren Buffett, just to name a few.

“The Most Important Thing” is a compilation of Mark’s extensive memos that he has forwarded onto his clients over a period of decades. They distil his investment philosophy and explain the workings of finance in a pithy easy to understand style.

I particularly enjoyed his chapter on investment risk – something that so many investors fail to adequately grasp.

## **The Index Revolution** (Charles Ellis)

Let’s face it - very few people are cut out to be stock pickers. Even those who claim to know what they’re doing pretty much make a mess of things.

There’s a growing awareness amongst investors that putting your hard earned into a low cost index fund and letting it compound over time is the best way for most of us to invest.

When it comes to books about index investing two authors immediately spring to mind – John Bogle (the founder of Vanguard) and Charles Ellis (too many qualifications to stuff between these puny brackets). So I tossed a coin and Charlie won. *The Index Revolution* is one of sixteen books that he’s written. This one distills Charlie’s thinking in a short, easy to read volume. And, after reading it, you might question whether you should be investing any other way.

So, there it is, my five top picks. I sort of wish it had been six picks though. As the years have rolled on it’s become increasingly obvious to me that a study of investor behaviour is essential. And I really enjoyed Daniel Kahneman’s “Thinking Fast and Slow”. Just saying!

## **To read more of Michael Kemp’s work**

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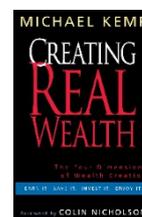
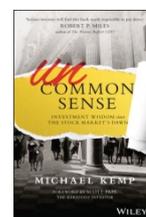
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### *Books*

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*Michael Kemp is the chief analyst for the Barefoot Blueprint and author of “Uncommon Sense”. Published under the Wiley label “Uncommon Sense” delivers a deeply considered and logical approach to the otherwise complex world of investing.*