

Elements of investing by Burton Makeil and Charles D Ellis

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About the book:

The authors in the book 'Elements of investing' get down investing to its basic, in layman terms and go to speak about a few principles which is all that one needs to know to begin with personal financial and investment planning. The book speaks about sensible disciplined investing that one needs to undertake to avoid the folly the market herd commits itself to.

Summary

The authors in this book emphasise as to why it is imperative to start saving early. They also caution us to keep credit cards at bay as soon we will realise the interests are mounting thanks to compounding effect and money will go from you to them (the banks) rather than being other way round. They also go ahead to tell everyone that beating the market is next to impossible.

They further emphasise the importance of diversification by saying not to put all your eggs in just one basket. One can reduce non systemic risk by holding instruments of various asset classes across various markets and rebalancing them once time permits. They recommend holding a low cost broad based index fund as this would act as buying the whole haystack rather than having to buy a single needle for itself.

They even elucidate about how folly people can get, by panicking and selling stocks at the bottom of the market when pessimism is rampant and sell when markets are at the top when they are actually and prudently supposed to do just the opposite.

Academics in its best form tries to undertake vast amount of research in order to find the right stocks to purchase which are undervalued, with a view to beat the market. However the authors propagate a contrarian view of having to hold a diversified passive index which merely replicates the index. They are certainly of the opinion that one cannot beat the market and the best alternative to this would be to join the market.

I cannot agree better with the time tested theories that I am familiar with, of passive investing in a diversified portfolio as propagated by investment gurus like Warren Buffet which is time and again reiterated in this book.

Having gone through some other investment books like 'Winning the loser's game' which once again revolves around disciplined investing by retail investors, the very same insights are provided in a simple manner as upheld by the KISS policy (Keep It Simple Silly), which the authors speak about too in this book. I am of the opinion that the very essence is presented in a crisp manner which can be easily related in this book.

We must appreciate the brevity of the book as it is made as crisp and concise as possible. What makes the book laudable is the fact there aren't any jargons of any sort and can be very much understood by any person who is totally new to investing. It is a must have book on the shelves of any person who would want to start planning on his/her finances and build up a portfolio.