



INVESTMENT ADVISORS, LLC

Book Review

Winning the Loser's Game, by Charles Ellis, CFA

The central theme of *The Loser's Game* is that investing is no longer a game that can be won, it has become a game that one wins by making as few mistakes as possible. In golf or tennis, professionals win by making winning shots, whereas amateurs win primarily by making fewer mistakes than their competition. By the 1970s, the stock market was dominated by professional institutions that were striving to win by outperforming the market. In just forty years the market activities of the investing institutions shifted from only 10 percent of total public transactions to over 90 percent. No longer was the average investor competing with cautious custodians or amateurs who were out of touch with the market. Now they are competing with experts and professionals globally with teams of analysts on their staff. This, in addition to the availability of information and advances in technology, make it extremely difficult for anyone to gain a significant advantage, especially after transaction costs and taxes.

Mr. Ellis goes on to conclude that market timing does not work. No investor is able to consistently outperform the collective wisdom of all professionals. Most of the upward movements in the market happen very quickly and often the best returns are had shortly after market lows. In order to capitalize on these upswings, an investor must participate in them, not be on the sidelines.

Security selection is another area discussed. In order to outperform a diversified market-weighted portfolio, an investor must capitalize on the mistakes of other professionals. Much like the section on market timing, Mr. Ellis goes on to say that the only way an investor can beat the market is to exploit other investor's mistakes. One may have a lucky outcome once in a while, but, as he explains, there are old pilots and there are bold pilots but there are no old, bold pilots.

For the individual investor, Mr. Ellis believes that the primary enemy is inflation. He discusses the fact that, at a 3 percent inflation rate, prices will double every 24 years; at 5 percent, the cost of living doubles every 15 years or so. Investors are best served by having a diversified portfolio of stocks to fight inflation. And many people underestimate their time horizon. Investors not only should consider their life expectancy, but those of their beneficiaries as well. Mr. Ellis does not subscribe to cookie cutter recommendations for stock/bond allocations, but that they should be based on personal circumstances.

For individual investors he suggests 10 "commandments", including saving, not considering primary residences as investments, not to invest in anything because of tax reasons, don't trust emotions, and finally, remember that the job of a stock broker is not to make money for you but to make money from you.

Overall the book is clear, concise, and written by what many would call one of the greatest minds in the investment field.

About the Author

Charles Ellis is the author of ten books and nearly 100 articles on investing. He has taught investment courses at both Harvard Business School and Yale School of Management. In addition to chairing AIMR, the investment management profession's worldwide association, he has served as overseer of the Stern School of Business at NYU, as a director of the Harvard Business School, and is a trustee and chair of the investment committee at Yale University.