

College of Business Review by Austin Spencer

Title: “Unconventional Success: A Fundamental Approach to Personal Investment”

Author: David F. Swensen

Length: 365 pages

Price: \$27.50

Reading time: 15 hours

Reading Rating: 4 (1 = very difficult; 10 very easy)

Overall Rating: 4 (1 = average; 4 = outstanding)

The vast majority of the investing public will never have the opportunity to take an introduction to investments course from one of the top investment managers. “Unconventional Success” provides a very rewarding alternative. The author carefully guides the reader through the basics of investing without duplicating what the individual investor has been told in other basic investment guides. The opening discussion deals with the identification and discussion of core asset classes: domestic equities; U.S. Treasury Bonds; inflation-linked bonds (TIPS); foreign developed country equity; emerging market equity; and real estate. This discussion is followed by a review of a number of assets classes that are characterized as non-core assets: domestic corporate bonds; high-yield bonds; asset-backed securities; foreign bonds; hedge funds; leveraged buyout funds; venture capital investments; and franchise firms. The discussion on asset classes is followed by an excellent introduction to portfolio construction.

Swensen initiates his discussion of the mutual fund industry with a detailed indictment of the for profit mutual fund families. This summary is followed by an introduction to actively managed bond and stock funds. The author concludes that the individual investor has created a class of very wealthy mutual funds managers while the investor in these funds has earned sub-par returns. The plight of the individual investor is made worse by the tendency of individuals to concentrate on stock selection and timing. When the investor engages in these activities they are setting themselves up to under perform the market over time. You might say at this point that you always pick the winners because you use one of the popular mutual fund rating services. Swensen’s view is that these services have one common problem. They look at historical returns to judge future performance. This approach will not work. His advice is: 1) stay away from shareholder owned mutual fund families and patronized families like Vanguard; 2) invest in index funds. He defends this advice with a detailed discussion of his rationale for investing in index funds. The author also identifies indexes that are built in a manner that will provide superior returns and comments on those indexes that are likely to under perform the market.

Swensen is a strong advocate of diversification. He points out there are a number of benefits to not putting “all of ones eggs in one basket.” The most important of these benefits is that all investments don’t have the same performance characteristics (they don’t appreciate at the same rate at the same time); thus diversification reduces volatility and makes it easier to stay in the market for the long run. A second benefit worth considering is that the diversified investor won’t spend his time chasing last years top

performing assets but rather will have a position in all the major assets classes on a continuing basis. To stabilize the return and reduce risk investors should rebalance their portfolio each quarter so the percent of the investor's assets in each asset class remains stable over time.

The case for reading this book is simple. The reader receives several dollars worth of good advice on each of the book's 365 pages while paying 27.50 for the book; a bargain purchase.

Austin Spencer is professor of Finance in the College of Business at Western Carolina University. His research interests include topics related to financial institutions and financial markets. For previously reviewed books, visit our web site at www.wcu.edu/cob/.