

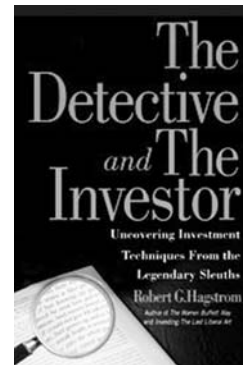
The Detective and the Investor **Book Review**

by Robert Hagstrom
Reviewed by Chris Paul

Biography: Chris W. Paul, PhD., is a professor in the College of Business Administration at Georgia Southern University, teaching in the Finance and Quantitative Analysis Department. He may be reached by e-mail at cpaul@georgiasouthern.edu.

The "Detective and the Investor" by Robert Hagstrom is an extremely well-written and engaging book, especially for those who enjoy reading mystery fiction. In turn, Hagstrom identifies and discusses the investigative techniques and individual characteristics of the three greatest fictional detectives: Poe's Auguste Dupin; Doyle's Sherlock Holmes; and Chesterton's Father Brown. The author's method is to review a particular mystery, discuss the techniques used by the detective in solving it, and then apply the technique to investment analysis. Though the techniques and individual qualities of each of the detectives discussed are in some ways unique, there is by necessity much commonality. Each embodies hard work in the collection of pertinent information, a skeptic's eye for both facts in evidence and facts that are conspicuous by their absence and an unwavering attachment to reason over emotion. This book is a very enjoyable read simply for being a highly entertaining review of the mysteries in which these detectives appear. This is good, because most investors will find following the advice to be skills they do not possess and hard work most investors will not want to perform. Indeed, those seeking a get-rich-quick scheme will want to eschew the serious investment literature.

Unlike many popular business books that offer a set of simple, one-size-fits-all, heuristics that are prone to misapplication, sometimes with disastrous results, this book offers an inventory of what it takes to successfully analyze investment alternatives. These requirements are quite high: encompassing a broad knowledge of accounting, economics and finance; continuous review of all available information; and a devotion to reason in interpreting information and resistance to emotion. The author notes that most investors resist doing the hard work of investment research, yielding instead to the pull of emotion and the ease of following conventional wisdom. They go along with whatever is



The Cover Story

Title and author: *The Detective and the Investor* by Robert Hagstrom

Number of pages: 262

Area of Business: Investments

Readability: Medium

Time needed to read: 8 hours

Why should I read this book? The book engages and entertains the reader while teaching the fundamentals of investment analysis.

Overall Rating: three bulbs

being said and written by others and imitate investment strategies. The problem with this approach, to quote Father Brown, is that, "What everybody knows is short and plain enough. It is also entirely wrong." For example, in the 1960s "investors were paying outrageous prices for a group of companies called the 'Nifty-Fifty,' companies believed to be invulnerable to economic cycles." A more recent example is the non-traditional valuation techniques used to tout tech stocks in the 1990s.

No application of forensic analysis to investment choices is complete without a discussion of the reoccurring fraudulent activities that have occurred before stock market crashes. Recounting the crashes of 1929, 1973-74, 1987 and 2000, the author identifies the malfeasants that contributed to the collapses. He recounts how in the 1990s investing in stocks had become so easy and popular that many individuals came to believe that investment decisions were as simple as putting all their money in the stock market. It is very unlikely that investors could have determined that accounting firms were part of the fraudulent misrepresentation of the firm's financial performance. But, by being more attentive, the investor would have been wary of historically high stock prices and perhaps been able to avoid some of the financial pain that resulted. It seems that one of the objectives of the author is to implore investors not to tar the entire market for the transgressions of a few notorious bad apples.

In conclusion, proper financial analysis of a company and its stock price is much more complex than can be captured by lazily gathering superficial information and impatiently applying simple rules. Only the very lucky and those who diligently and consistently apply the methods of analysis used by the detectives reviewed in this text will improve their long-run investment results.