Index

Note: JMK refers to John Maynard Keynes

A.D. Investment Trust, 165–166
Animal spirits, 62, 63, 65, 72, 89
Anticipatory trading:
  change to value investing from, 69–70
description of, 35–36
  index-tracking funds and, 75–76
Apostles (secret society), 5–6
Asch conformity experiments, 31
Asset classes, 145
Austin Motor Car Company, 42

Babson, Roger, 39–40
Baghot, Walter, 103
Balanced investment position,
  144–145, 163
Bank of England, 84
Baruch, Bernard, 41
Behavioral finance, 60, 160
Bell, Clive, 17, 169
Benchmarking practice, 74

“Be Quiet” motto, 126, 152
Berkshire Hathaway, 78–79, 110–111,
  116–117, 161–162. See also
  Buffett, Warren; Munger, Charles
Black Monday, 40
Black Thursday, 40
Blair, Eric, 4
Bloomsbury group, 7–8, 9–10, 92, 108
Blue chips, value of, 117
Board positions, 19
Bogle, John, 89
Bottom–up approach to investing, 91
Bretton Woods, 81
Britain:
  Bubble Act in, 85–86
  Degas, Edgar, collection of, 108
economy of, 46
gold standard and, 20
India Office, 7, 9, 172
negotiation of U.S. loans for, 170–171

201
Britain: (Continued)
in nineteenth century, 3
stock market in, 23–24
World War I and, 11
British Arts Council, 81
Brokers:
fees of, 131
JMK view of, 129–130
Brooke, Rupert, 10
Bubble Act, 85–86
Buchan, John, 8
Buffett, Warren:
Berkshire Hathaway and, 116–117
career of, 78–79
on diversification, 137
on efficient markets hypothesis, 88
on emotional discipline, 157
excessive trading and, 131, 132
on fear, 121
on index funds, 137
investment strategy of, 100–101, 106, 148
on leverage, 154
on market, 89
matrimonial analogy of, 133
on Mr. Market, 161
on overpriced stock, 169
on portfolio concentration, 141
on price movements, 114
on stock ownership, 156
stocks appealing to, 104, 105, 117, 122–123
on superstars, 138–139, 143–144, 145
on temperament, 154–155
on value investing, 90, 164–165
on valuing stock, 104
on Wall Street, 130
The Washington Post and, 120–121
Buridan’s ass, paradox of, 64
Business cycles, 44–45
Buy-and-hold strategy, 126, 128–129, 131, 143, 149–150
Buying against stream, 166
Cambridge University, 4, 5–6, 9
Capital gains taxes, 131
Capitalism:
JMK view of, 50–51
moderating excesses of, 58
tenet of, 127
worldwide views of, 51–52
Cassel, Ernest, 18
Cezanne, Paul, 8
Churchill, Winston:
business transacted by, 13
as Chancellor, 20, 81
on great-grandmother, 85
JMK and, 15, 160
Labour Party and, 172
Churning trades, 130, 150
Classical theory:
financial discipline in slump times, 53
letting matters take natural course, 47
precision and, 97
underemployment equilibrium, 54
See also Efficient markets hypothesis;
The General Theory of Employment, Interest and Money (Keynes)
Clemenceau, Georges, 12
The Collected Writings of John Maynard Keynes (edited by Moggridge and Johnson), 175, 176
Commodities market, 42, 126, 127, 151–152
Common Stocks as Long-Term Investments (E. Smith), 21–22, 111
Communism, 52
Compound interest, 129
Concentration of portfolio, 136, 139, 141, 143–144, 145–146
Contradiction, capacity for, 15–16
Contrarian investing, see Value investing
Cooke, Sidney Russell, 149
Coolidge, Calvin, 25
Core risk, 63–64
Credit cycle investing:  
change to value investing from,  
69–70  
description of, 35–36  
index-tracking funds and, 75–76  
Crowd behavior, 31–33, 148  
Crowley, Leo, 121–122  
Currency markets:  
drift from, 20  
speculation in, 17, 127  
syndicate for, 17–18  
Darwin, Charles, 3, 4  
Davenport, Nicholas, 152  
De Bondt, Werner, 119  
Debt, 153–154  
Decision-making framework for value investing, 154–155, 157  
Deferring tax liability, 131  
Degas, Edgar, collection of, 108  
Democratization of stock investing,  
73–74  
Displacement effect, 110  
Diversification:  
as defensive strategy, 137  
efficient markets hypothesis and,  
142–143  
JMK rejection of, 135–136, 146  
risk and, 140–141  
uncertainty and, 139–140  
Dividend discount model, 100–101  
Dodd, David, 102  
Dogs of the Dow system, 119  
Dollar cost averaging, 138  
Dot-com delirium, 78–79, 153–154  
Dow Jones index, 24, 26, 40, 41, 119  
Dylan, Bob, 141  
Earning power of stock, 90–91, 92, 93,  
104–105  
Eccles, Marriner, 122  
The Economic Consequences of  
Mr. Churchill (Keynes), 20  
The Economic Consequences of the Peace  
(Keynes), 12–13, 16  
Economic Journal, 9  
Economics:  
atomic hypothesis and, 68–69  
influences of science on, 68  
JMK on, 97, 105–106  
stock markets as confounding tenets of, 114–115  
Economy:  
of Britain, 46  
emergent properties of, 69  
of Soviet Russia, 52  
of United States, 25–27, 43–44  
Efficient markets hypothesis:  
Berkshire Hathaway and, 78–79  
core risk and, 63–64  
defense of, 87–88  
description of, 27, 29–30  
diversification and, 142–143  
error of, 88–89  
financial exchanges and, 160  
limitations of, 74  
value investing and, 87  
Einstein, Albert, 142  
Eisenhower, Dwight, 46  
Ellis, Charles, 168  
Emergent properties, 69  
Emotional discipline, 156–158  
Endowment effect, 155–156  
Enterprise, 79  
“Enterprise” investing, 128  
Equities, see Stocks  
Eton College, 4–5  
Excessive trading, 130–132, 150  
Extraordinary Popular Delusions and  
the Madness of Crowds (Mackay),  
71, 72  
Falk, Oswald, 17–18, 151, 157, 165  
Fallacy of composition, 69  
Fama, Eugene, 27, 118  
Fascism, 52
Fashion, victims of, 109–111
Fear, Buffett on, 121
Financial markets:
  democratization of, 73–74
  interest in, 17
  irrationality in, 88
  role of, 56–57
  tulipomania and, 72
Fisher, Irving, 39–40, 41–42
Fisher, Philip, 142
Focus investing, 136, 139, 141, 143–144, 145–146
Foreign exchange market, speculation in, 13
Forster, E. M., 5
Freud, Sigmund, 8
Fund managers:
  assessment of performance of, 74
  concerns of, 75
  JMK view of, 129–130
Galbraith, John Kenneth:
  A Short History of Financial Euphoria, 33
  on stock markets, 113
The General Theory of Employment, Interest and Money (Keynes):
  beauty contest analogy in, 93
  conclusions of, 159
  on efficiency of markets, 72–73
  on long view, 132
  on moneymaking, 147–148
  opinion on, 58
  overview of, 55–56
  safety first policy and, 103
  on skilled investment, 128
  on uncertainty, 63
  as work of behavioral economics, 59, 60
George (king), 84
George V (king), 9
Germany:
  after World War I, 11, 21
  Nazi Party in, 51
  in World War I, 107–108
“Girl in gorilla suit” experiment, 99
Gold standard, 7, 20
Google, and intelligent multitude thesis, 28–29
Government, role of, 58, 128
Graham, Benjamin:
  Buffett and, 78, 79
  on emotional discipline, 157
  The Intelligent Investor, 99, 110, 168
  investment strategy of, 100, 122
  on margin of safety, 101–102
  Mr. Market and, 77, 160–161
  on price fluctuations, 76–77
  on stock market, 89, 128
  stocks appealing to, 117
  on value investing, 115, 150
  on valuing stock, 101
Grant, Duncan, 108, 148
Great Britain, see Britain
Great Depression, 40–41, 42–43, 45, 46
Great War, 9–10, 11
Greenspan, Alan, 154
Groupthink, 31
Growth stocks, value stocks compared to, 118
Hayek, Friedrich von, 58, 97, 173
Heilbroner, Robert, 43
Herd behavior, 31–33, 148
Hoover, Herbert, 88
Hume, David, 57
Hyperbolic discounting, 132
Independent Investment Company, 43, 166
Index-tracking funds, 75–76, 137–138
Indian Currency and Finance (Keynes), 9, 130
India Office, 7, 9, 172
Inflation after Great War, 21
Informational cascades, 32–33, 67
The Intelligent Investor (Graham), 99, 110, 168
Intelligent multitude thesis, 27–29
Internet, and intelligent multitude thesis, 28
Internet bubble, 32
Intrinsic value of stock:
description of, 91
estimating, 96, 100–102
“safety first” policy and, 103–104
value investing and, 92, 93
Investment:
assessment of performance of, 165–166
Graham strategy for, 122
JKM expertise in, 1–2
JKM rules for, 164
JKM strategy for, 90–91, 92–93, 108–109, 120, 122, 162–163
nonrational factors in decisions regarding, 64–68
speculation compared to, 79
See also Portfolio of JMK; Value investing
Investor psychology:
Graham and, 76–77
JKM on, 65
professional investors, 75
Invisible hand, challenge to doctrine of, 56, 58, 59
Irrational Exuberance (Schiller), 98
Jazz Age, in U.S., 26
John Maynard Keynes 1883–1946:
Economist, Philosopher, Statesman (Skidelsky), 175
Johnson, Samuel, 84, 147
Kahn, Richard, 93
Keynes, Geofffrey, 3–4
Keynes, John Maynard (JKM):
accomplishments of, 172–173
bequest of, 1
birth of, 3
career of, 6–7, 9–10, 12, 81, 121–122, 170–171
cost of, 4–5, 6, 10, 15
death of, 172
education of, 4
frugality of, 92–93
health of, 81, 171
memorial service for, 172
nonconformism of, 109
obituary on, 2, 163–164
optimism of, 169
Keynes, Margaret, 4
Keynesianism, 59–60
Kindleberger, Charles, 32
King’s College, 2, 5, 9, 19, 125–126
King’s College Chest Fund, 23, 167
Knight, Frank, 113
Laissez-faire theory, see Classical theory; Orthodox financial theory
Lawrence, Joseph Stagg, 27
Leffingwell, Russell, 56
Leverage, 153–154
Liquidationism, 44, 54
Liquidity preference, 57
Livermore, Jesse, 133
Lloyd George, David, 11, 12, 15
Loeb, Gerald, 139
value investing and, 128–129, 132–133
Lopokova, Lydia, 19–20
MacArthur, Douglas, 46
Mackay, Charles, Extraordinary Popular Delusions and the Madness of Crowds, 71, 72
Margin of safety, 101–102, 118, 140
Marshall, Alfred, 7
Matisse, Henri, 8
Matrimonial analogy, 132–133
Meade, James, 122, 171
Mellon, Andrew, 44
Mitchell, Charles, 37
Moggridge, Donald, 166, 167–168, 176
Momentum investing:
  change to value investing from, 69–70
  description of, 35–36
  index-tracking funds and, 75–76
Monetary theory of production, 59
Money:
  JMK views on, 2, 16, 147–148, 157–158
  role of, 56–57
Moore, G. E., Principia Ethica, 5–6
Morgan, J. Pierpont, 145
Mosley, Oswald, 46, 52
Mr. Market, 77, 160–161
Munger, Charles:
  Berkshire Hathaway and, 78, 110
  on bias toward quantification, 98
  on borrowing, 154
  on emotional discipline, 157
  excessive trading and, 131
  on overpriced stock, 169
  on stock market as racetrack, 112, 113
  on superstars, 138, 143
  on “turnaround” plays, 118
  on value investing, 151
  on Wall Street, 130
National Mutual Life Assurance Society, 2, 19, 166
Near-term factors, impact of, 65–66, 74–76
Newton, Isaac, 61–63, 86, 95–96
Nullius in Verba, 86
Obituary on JMK, 2, 163–164
Optimism, 169
Orthodox financial theory:
  core risk and, 63–64
  diversification and, 136, 137
  financial discipline in slump times, 53
  inadequacy of, 165
  JMK views of, 55–56, 68
  underemployment equilibrium, 54
See also Classical theory; Efficient markets hypothesis; The General Theory of Employment, Interest and Money (Keynes)
Orwell, George, 4
Overconfidence and overoptimism, 155
Paradox of Thrift, 69
Paris Peace Conference, 11, 12
Patton, George, 46
Performance assessment:
  negatives of, 168–169
  overview of, 165–166
  positives of, 167–168
Picasso, Pablo, 8
Pigou, Arthur, 58
Planck, Max, 96–97
Pope, Alexander, 61, 84
Popularity, perils of, 110–111
Portfolio of JMK:
  before 1919, 17
  borrowings and, 153, 154
  concentration of stocks in, 136, 146
  during 1920s, 24
  1928 to 1930, 42
Post mortems, 160, 165–169
P.R. Finance Company, 151–152, 165
Pragmatism, 53–54
Precision, perils of, 95–96, 97–99, 105–106
Principia Ethica (Moore), 5–6
Principles of Corporate Finance, 87
Protectionist governments, 46
Proust, Marcel, 8, 67
Index

Provincial Insurance Company, 166–167
Psychology of uncertainty, 55–56, 66

Quantification:
  bias toward, 98–99
  JMK view of, 103

Racetrack analogy, 111–113
Reversion to the mean, 118–119
Ricardian vice, 97
Ricardo, David, 141
Risk:
  definition of, 137
  diversification and, 139–141
  focused portfolio and, 146
  probability value of, 113
Risk aversion, 66
Robbins, Lionel, 170, 172
Roosevelt, Franklin Delano, 51
Roosevelt, Teddy, 127
Royal Commission on Indian Finance, 9
“Rule of 72,” 129
Russell, Bertrand, 5

“Safety first” policy, 96, 103–104, 106, 168
Samuelson, Paul, 29
Sarah, Duchess of Marlborough, 84–85
Schwed, Fred:
  on “best” investments, 109–110
  on speculation and investment, 102
Where Are the Customers’ Yachts?, 98
Science, influences of, on economics, 68
Security Analysis (Graham and Dodd), 102
Shiller, Robert:
  Irrational Exuberance, 98
  on reversion to the mean, 118–119
A Short History of Financial Euphoria (Galbraith), 33
Short-term price patterns, 114–115

Skidelsky, Robert, 167, 175
Slumps, view of, 45
Smith, Adam, 3, 53, 56, 146, 155
Smith, Edgar Lawrence, Common Stocks as Long-Term Investments, 21–22, 111
Social proof, 31
South Sea Company, 62, 83–86
Soviet Russia, economy of, 52
Speculation:
  change to investment from, 70, 79
  in commodity and currency markets, 127
  concerns of, 33–34
  credit and, 153
  democratization of investing and, 74
  initiation of, 17
  JMK strategy for, 34–36
  South Sea Bubble, 83–86
  stock prices and, 115
  syndicate for, 17–18
  in tulips, 71–72
  wire services and, 24
Speculative markets, JMK on, 91–92
Spending against the wind, 58
Sraffa, Piero, 120
Stagflation, 60
Stock market:
  ambiguity in, 64–65
  in Britain, 23–24
  as confounding tenets of economics, 114–115
  crash of, in 1929, 40–41, 42–43
  democratization of, 73–74
  gambling on, 127
  game players and, 73, 126
  Graham and, 76–77
  groupthink and, 31–32
  informational cascades and, 32–33
  initial interest in, 21
  intelligent multitude thesis and, 29
  JMK as evangelist of, 22–23
  quantitative techniques and, 98
Stock market: (Continued)
as racetrack, 111–113
uncertainty, 113–114
in U.S., 24, 36–37
as weighing machine, 89–90

Stocks:
as fashion accessory, 109–111
as hedge against inflation, 21–22
holding on to overpriced, 168–169
as “pets” of JMK, 135–136
See also Portfolio of JMK; Stock market; Valuing stock

Strachey, Lytton, 10
Stumers, 96, 168

Stunners:
identification of, 93
JMK focus on, 135–136, 138
loading up on, 142–143, 145–146
margin of safety and, 102
uncertainty and, 120

Surowiecki, James, The Wisdom of Crowds, 28

Tax liability, deferring, 131
Templeton, John, 91
Thaler, Richard, 119, 155–156
Top-down approach to investing, 35–36
Total returns, 75
A Tract on Monetary Reform (Keynes), 148
Trade barriers, 44
Transaction costs, 130–131
A Treatise on Money (Keynes), 35, 65
Tulipomania, 71–72
“Turnaround” plays, 117–118

Ultimate earning power, 104–105
Uncertainty:
dealing with, 106
diversification and, 139–140
psychology of, 55–56, 66

stock markets and, 113–114
stunners and, 120

Uncertainty gap, 64–65

United Kingdom:
     Bubble Act in, 85–86
     Degas, Edgar, collection of, 108
     economy of, 46
     gold standard and, 20
     India Office, 7, 9, 172
     negotiation of U.S. loans for, 170–171
     in nineteenth century, 3
     stock market in, 23–24
     World War I and, 11

United States:
economy of, 25–27, 43–44
negotiation of loans from, 170–171
stock market in, 24, 36–37
utility companies in, 120

Ussher, James, 95–96

Utility companies, shares of, 120
Utopia, vision of, 49–50

Value investing:
adhering to policy of, 115–117
bargain hunting and, 90–91
“Be Quiet” motto and, 126, 152
as contrarian, 109, 122–123
decision-making framework for, 154–155, 157
earning power of stock and, 90–91, 92, 93
efficient markets hypothesis and, 87, 89
emotion and, 156–158
empirical evidence and, 118–119
as “glass half-empty” approach, 102
Graham on, 115, 150
independent analysis and, 150–151, 161–162
JMK strategy for, 70, 79–80, 105–106, 116
margin of safety and, 140
practice of, 162–163
principles for, 164
return of capital and, 96
stock characteristics and, 104–105
as tautology, 161
timing and, 89–90
vigilance and, 151–152
See also Focus investing
Valuing stock:
Buffett approach to, 100–101
Graham approach to, 100
precision in, 96
See also Intrinsic value of stock
Versailles Treaty, 46

The Washington Post, shares of, 120–121
Waterloo, Battle of, 3, 5
Wealth, pursuit of, 16
The Wealth of Nations (A. Smith), 155
Webb, Beatrice, 109
Where Are the Customers’ Yachts?
(Schwed), 98
White, Harry Dexter, 171
Wilhelm II, 9
Wilson, Woodrow, 12
The Wisdom of Crowds (Surowiecki), 28
Wittgenstein, Ludwig, 5, 20
Woolf, Virginia, 7, 8, 92
Wordsworth, William, 125
World War I, 9–10, 11–12