Preface

To some, this book may appear to be a well timed attempt to cash in on the financial market debacles that started with the collapse of Enron and have spread like a contagion to engulf Arthur Anderson, Worldcom, Adelphia, Global Crossing, and Tyco, to name only a few. Even major investment banking institutions, such as Citigroup and JP Morgan Chase have been exposed for participating in the accounting shenanigans that hid the activities of Enron and others from the glare of public disclosure. Yet, even though the timing of this book seems like an exercise in current affairs, this is more of a fortuitous coincidence than a primary motivation. Recent events do provide a useful backdrop for the arguments advanced in this book but the substance would be largely unchanged even if the roaring bull market of the second half of the 1990's had continued unabated. Though current events are closely examined at various points, the substance of this book has been a long time in preparation. Lecture notes from classes taught as long ago as the early 1980's form the backbone of this book, though the bulk of the material has been developed within the last decade. The book is designed to be an advanced textbook treatment of security analysis and investment strategy that integrates the best of academic and practitioner insights on the subject.

Casual inspection of the text will reveal an approach to the subject that is somewhat different than the usual fare. In particular, this book takes direct aim at the limitations of the prevailing positivist epistemology that dominates both the instructional and research agenda of modern Finance. It argues that Finance is a use oriented subject and, as such, needs to keep one eye squarely fixed on the needs of practitioners in the securities industry. The theoretical ideas of Finance are explored in considerable detail with the objective of demonstrating that the positivist approach is insufficient for dealing with the pervasive uncertainty in securities markets. Though there is much of value in the received theories of modern Finance, the analysis has to be expanded along historical and philosophical lines in order to deal with the practical valuation problems encountered in securities markets, especially the market for common stocks. Mantras such as 'stock returns outperform bond returns in the long run' and investment strategies derived from two fund separation are examined in detail, with a view to extracting the insights for making security valuation and investment strategy decisions.

Those aiming to use this book as the backbone of an advanced course on security analysis may be concerned that the philosophical explorations and some other topics lie too far outside the knowledge base of the typical advanced Finance student. Most such students have never taken a course on, say, the history of science or epistemology. Similarly, some of the mathematical content, such as the discussion of stochastic differential equations in sec. 5.2, will be too technical for the typical Finance student. To alleviate such concerns, an asterisk is used to mark chapters subsections that likely fall into the 'too advanced' or 'too unfamiliar' category. As a casual inspection of the book will reveal, such subsections form only a fraction of the book's content. Though this material is essential to developing key themes in the book, such as demonstrating the biases in modern Finance that arise from philosophical concerns, the informational and practical content contained in the book can be readily digested without giving much consideration to these issues.

The layering of material by level of sophistication and analytical complexity makes the book suitable for a range of course levels and course content. Though there is some foundational material similar to what is contained in an introductory investments text such as Bodie et al. (1999), it is not pedagogically sensible to use this book as the core text in an introductory investments course. Depending on instructor preferences, various chapters or subsections could be of value in a an

introductory investments course, making the book suitable as a supplementary text. The bulk of material in the book is targeted at courses in security analysis and investment strategy at the senior undergraduate and second year MBA level. If the more advanced material is included, the book is also suitable for a Ph.D. level course in, say, fixed income analysis or equity valuation. The cases and ***case oriented material downloadable from the book website*** also makes the book useful as a supplementary text in trade courses or as a self-study guide for real-time security market combatants.

   Those familiar with my other books on finance, *The Early History of Financial Economics, 1478-1776* (2000) and *Risk Management, Speculation and Derivative Securities* (2002) may be concerned that this effort is, yet again, an example of the creeping incursion of typographical and editing errors in modern academic texts. Though there are no guarantees in life, rest assured that a herculean effort has been made to keep the bugs out of this effort. As with my previous books, my website at www.sfu.ca/~poitras will have posted an up to date listing of the typos and other errors that have been uncovered in this book. (The website also contains errata lists for my previous books.) This book has benefitted considerably from the comments of anonymous and not-so-anonymous reviewers on preliminary drafts of the text. Feedback and discussion from numerous students over the years has had a significant impact on the topic coverage. At Blackwell publishing, I would like to give special thanks to the efforts of Seth Ditchik, Laura Stearns and Elizabeth Wald without which this book would not have been produced.

Acknowledgments

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NOTE: Editor (Laura) to provide a list of sources for acknowledgment from contents of permission file