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BOOK REVIEW

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RATIONAL INVESTING: THE SUBTLETIES OF ASSET MANAGEMENT

Written by Hugues Langlois and Jacques Lussier
(*Reviewed by Savannah Smith*)

It may sound odd, but the word that comes to mind when describing this book is *humble*. Langlois and Lussier are humble in how they present the book to the reader. They begin Rational Investing: *The Subtleties of Asset Management* by stating—in depth—what their mission is not: They are not trying to reinvent the wheel. They are not going to make any grand statements about the markets, or particular asset classes, or about which investing methods are better than others. They are not going to take sides. The message they sent about the asset management industry is also humbling. With chapters and subsections titled "We Know Less Than We Think," "Are We Any Good at Predicting Risk?" and "Managers and Advisors Are Not Your Friends," I found this book to be refreshingly honest about the industry while managing to avoid cynicism.

The book is organized into four main subjects: market structure, how luck and skill play into performance, components of investment skills, and "unique" investment skills. Through this framework, Langlois and Lussier answer a lot of questions that investing neophytes may have. They begin with the basics, active versus passive investing, with chapters 2 and 3 serving as a helpful resource on active investing and how we can define, measure, and potentially predict skilled managers. The chapter that follows discusses market forecasts and the varying degrees of disappointment they tend to bring. Personally, I think that the applicable investment lessons come in about halfway through the book, though the initial chapters are equally important to those with a more rudimentary understanding of finance. Chapter 5, "The Blueprint to Long-Term Performance," reviews diversification in three parts. I was particularly impressed that Langlois and Lussier managed to illustrate the importance of diversification without heavily relying on equations. To that end, this chapter maintains the integrity of their mission and the audience they're hoping to serve.

Chapter 6 continues discussing the portfolio construction process and brings into play some of the more crucial but complicated concepts, such as factors, Sharpe ratios, and liquidity. I can't help but wonder if the readers who were finding the most value in the earlier chapters may find the subject matter here too advanced. The closing chapter, titled "We Know Better, But...," provides some insightful concluding remarks about the common ways in which investors can often get in their own way, either through bias, stubbornness, or simply limited knowledge. While generally critical of the asset management industry, the authors seem to be optimistic about the future here.

Rational Investing is a thorough and concise guidebook that will benefit those looking to gain a comprehensive understanding of asset management. The non-technical language and references in this book make it particularly useful to investing novices who are curious about the field but unfamiliar with some of the more complex theories and concepts. I believe the authors have achieved their objective of providing the "broadest possible understanding of the factors that drive investments successes and failures while avoiding as much as possible the complexity, biases, and noise that surround it." In an industry where that noise is often deafening, Rational Investing will serve as a clear, refreshing, and honest voice.