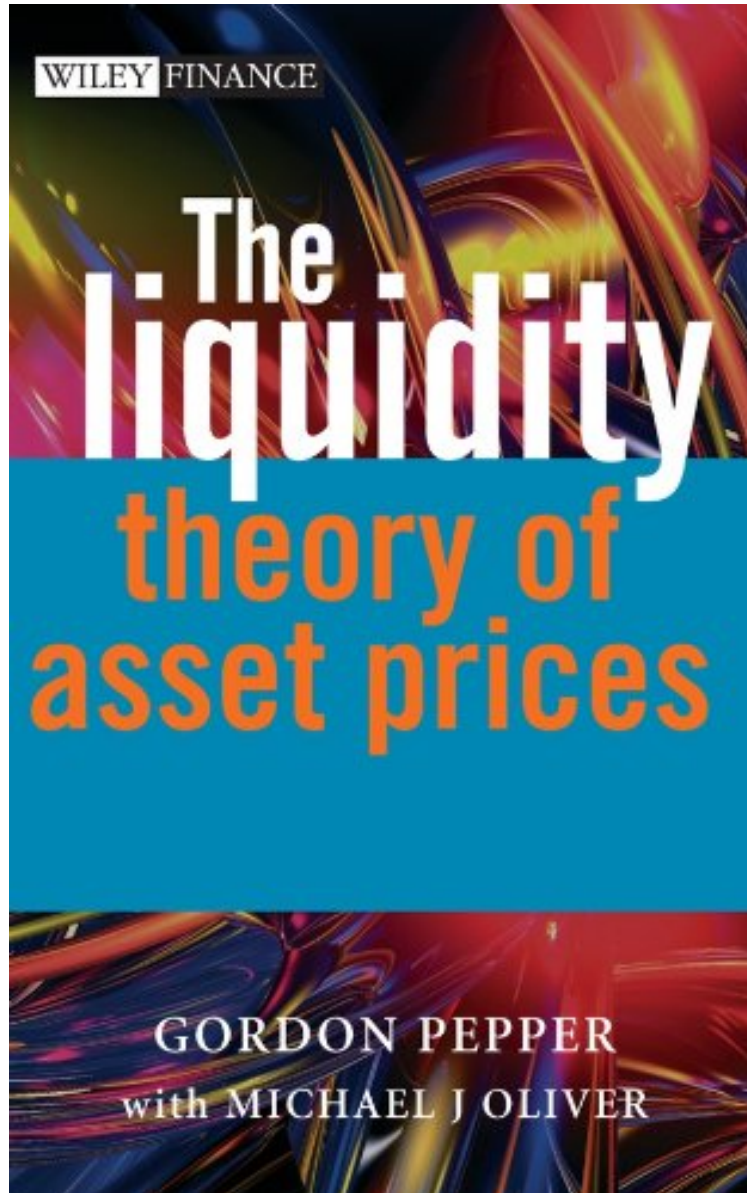


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The Liquidity Theory of Asset Prices (The Wiley Finance Series)

Gordon Pepper, Michael Oliver

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Gordon Pepper, Michael Oliver : The Liquidity Theory of Asset Prices (The Wiley Finance Series) before purchasing it in order to gage whether or not it would be worth my time, and all praised The Liquidity Theory of Asset Prices (The Wiley Finance Series):

1 of 1 people found the following review helpful. Impressive knowledgeBy investingbythebooksSome of my smartest friends argue that the next few years will be similar to the period around 1990, where Politicians' and Central Bankers'

decisions were the driving forces behind market action. Personally, I believe we are in a global deleveraging phase, a "Japan Lite", with significantly overvalued securities. Occasionally, we will see some market spikes though, due to actions from the Lords above. Either way, I felt I needed to improve my knowledge of liquidity issues to fine-tune my market timing skills. What are the best early indicators to anticipate major changes in supply/demand of liquidity? And is there a way to guesstimate the effect on market prices? There are rather few specialized books written on liquidity theory - this one was recommended to me. The Authors - Gordon Pepper and Michael J. Oliver - are an interesting blend of deep market knowledge and academic prowess. Pepper is the joint founder of W. Greenwell Co's UK gilt-edged business and a former Chairman of Lombard Street Research - one of the leading global Research Institutes on liquidity. Oliver is a Professor of Economics in Rennes, an acknowledged economic historian and a Director of Lombard Street. "Liquidity" is more or less investor's jargon for what academics label Monetary Analysis, which basically is the study of supply and demand for money, credit and other flows of funds that influence the level of asset prices as a whole. Russell Napier (of Anatomy of the Bear-fame) says in the foreword that psychology and liquidity were the two key omissions in traditional financial education (although we have learned a lot on Behavioral Finance lately). However, most of us have a long way to go to operationalize liquidity understandings into our investment processes. The Authors separate portfolio trades based on fundamentals from liquidity trades, where the later, like behavioral issues, sometimes move asset prices away from "efficient levels". When liquidity transactions persist in one direction for some time, it might lead to extrapolative expectations that explain some of the volatile gyrations around intrinsic values. Sometimes, as we have learned, it ends up in bubbles or busts. The current extreme experiment from our Central Bankers will be very interesting to follow. The set-up of the book is quite conventional with five parts. The chapters on "Liquidity theory" and "Financial bubbles and debt deflation" are my favorites. Although rather short, it makes it easy to use as a reference book. There are many interesting opinions and conclusions to find. Reading the book probably improves most investors' knowledge on liquidity issues. But I don't feel the book fully lives up to the grand title and I don't see a theory that is finely chiseled, coherent and elegantly simplified enough to be practically workable in the markets themselves. Neither does it answer my stated questions. But maybe it's because they are too naiuml;ve. "In most circumstances, the information about the behavior of the monetary aggregates that is needed to produce a reliable forecast is not available in time to make such a forecast". My main take-away is that a solid knowledge on liquidity issues, with some number-crunching on midterm trends on aggregated data, probably helps you set the market action in perspective, pretty much like sentiment factors. However, it's doubtful if liquidity analysis is usable for fine-tuning market entries and exits. I am impressed by the Authors knowledge and the detail in structuring these complex issues. I will certainly read their next book that may bring their theory to perfection. Currently, my favorite reading on liquidity is Ray Dalio's "How the Economic Machine Works". But this book is a good introduction to a fascinating topic. I still need to learn more - suggestions? This is a review by investingbythebooks.com 0 of 0 people found the following review helpful. Use with caution By St.august Appropriate to understand some concepts but useless for market timing unfortunately. In the case of feb. - june 2017 correction on Russian market no signals described in this book worked. Sanctions were prolonged and ruble was streghened and voila the force sellings for half the year despite strong fundamentals, monetary policy and growing m2, inflation slowing, dividends rising, rates declining etc.

Professional investors are bombarded on a day to day basis with assertions about the role liquidity is playing and will play in determining prices in the financial markets. Few, if any, of the providers or recipients of such advice can truly claim to understand the wellndash;springs of such liquidity and the transmission mechanisms through which it impacts asset prices. This groundbreaking new book explores the belief that at the core of liquidity there is a force which exerts individuals to effect a financial transaction when they would not otherwise do so. Understanding this force of compulsion is a key to understanding a financial market when it appears to be behaving irrationally. This book will enable new and seasoned investors to develop an understanding of the factors, so that costly mistakes can be avoided without the lesson of experience.

From the Inside Flap "Central bankers worry about asset markets. Do they convey information about the future course of the economy? How does monetary policy affect these markets - if it does? Should monetary policy attempt to prevent or prick bubbles? These are important matters, sometimes neglected by academic economists. This book, written jointly by a practitioner with a good knowledge of economics and an economic historian with a good knowledge of markets, is most useful and important contribution and asset markets. It is a most welcome book." - Geoffrey E. Wood, Professor of Economics, Cass Business School, "Even a beginner could understand this and this is excellent from a treasurer or a CFO's viewpoint since many of them would gain a better understanding of why their company's share price is flagging or performing in the way that it is. As an educational tool it is very impressive. I can see the great potential for this in the marketplace. I wish that I had been armed with this when I first went into the City!" - Michael Shelton - Agar, Director, Lombard Street Associates "Gordon Pepper makes a clear, well argued case for the Liquidity Theory of Asset prices. He provides an interesting and revealing perspective on periods of seemingly

irrational behavior in markets. The most important piece of advice I took away with me was 'don't listen to what central bankers say, watch what they do'. I would recommend any experienced fund manager to read this and have their preconceived ideas, about market fundamentals, challenged." - Anja Balfour, Fund Manager, Framlington "I think this book will prove extremely helpful to young professionals setting out on a career in asset management and seeking to educate themselves about the investment world. The book is clearly the outcome of a lifetime of hard intellectual work combined with practical experience of markets. I think it will be most useful to aspiring investment managers and I only wish it had been available for me 30 years ago." - Richard Burns, Senior Partner, Baillie Gifford

From the Back Cover For at least the last decade, there has been a growing sense of frustration among market professionals with the attempts by academics to account for the behaviour of financial markets. Very experienced practical people have become highly critical of traditional teaching in universities which is grounded in the so-called Efficient Markets Hypothesis. In this stimulating new book, the authors bridge the gap between academic and practical experience by advancing the liquidity theory of asset prices. For many investment managers, liquidity is a crucial subject to which academics have paid too little attention. The book demonstrates that knowledge of liquidity is vital for understanding markets. For academics who have not been thoroughly exposed to working in financial markets, the liquidity theory of asset prices will add to the explanatory power of the Efficient Markets Hypothesis. The liquidity theory of asset prices explains that an investment transaction often takes place because someone either has cash to invest or needs to raise cash. In the economy as a whole the difference between the amount of cash waiting to be invested and the need to raise cash can be substantial; moreover, an imbalance can persist for many months. Markets react accordingly, going up or down as the case may be. When a market is rising, people become optimistic, and pessimistic when a market is falling. If a trend continues investors start acting as in a crowd. Crowd psychology becomes important. Booms and busts follow. An understanding of these forces is important not only for investors but also for industrialists and governments. This book is the only practical explanation of the liquidity theory of asset prices currently available and the text has been enhanced by its use on MBA and Continuous Professional Development courses. It is guaranteed to go a long way to remedying an embarrassing lack of understanding of an economic force which has moved to the centre stage of financial market understanding.

About the Author Gordon Pepper has the unusual combination of an economics degree from Cambridge and actuarial training. Immediately after he finished taking examinations, he became a dealer on the Floor of the London Stock Exchange. His 'postgraduate university' was the market place, where he underwent the harshest of disciplines. Forecasts based on conventional theories were often wrong. The inescapable conclusion was that these theories were either incorrect or incomplete. Pepper was the joint founder of W. Greenwell's 'gilt-edged business (that is, the UK government bond business), which arguably became one of the leading bond-advisory businesses in the world, the advice being about both the best investments and the optimum way to execute business. For more than ten years he was the premier analyst in the gilt-edged market and was often described as the guru of that market. He was the principal author of Greenwell's 'Monetary Bulletin, which, in the 1970s, became one of the most widely read monetary publications produced in the United Kingdom. Pepper is the author of three books and the co-author of a fourth: Money, Credit and Inflation (1990), Money, Credit and Asset Prices (1994), Inside Thatcher's 'Monetarist Revolution (1998), and (with Michael Oliver) Monetarism under Thatcher - Lessons for the Future (2001). He is also chairman of Lombard Street Research Ltd, which is one of the UK's leading independent firms carrying out investment research and specialising in analysis of money, credit and flows of funds. Summarising, Pepper's particular strength is the combination of practitioner and academic. Above all, he writes with great authority from his knowledge of what actually happens in the marketplace. Michael J. Oliver is currently Professor of Economics at 'Ecole Supérieure de Commerce de Rennes and a director of Lombard Street Associates, UK. He graduated in economic history at the University of Leicester and was awarded his PhD in economics and economic history from Manchester Metropolitan University. He has held posts at the universities of the West of England, Leeds, Sunderland and has been a Visiting Professor at Gettysburg College, Pennsylvania and Colby College, Maine. He is the author of several books, including Whatever Happened To Monetarism? Economic Policy-making and Social Learning in the United Kingdom Since 1979 (1997); Exchange Rate Regimes in the Twentieth Century (with Derek Aldcroft, 1998) and Monetarism under Thatcher - Lessons for the Future (with Gordon Pepper, 2001). He has just finished co-editing a book (with Derek Aldcroft) entitled Economic Disaster of the Twentieth Century, which is being published by Edward Elgar in 2006. He has contributed articles to Economic History, Twentieth Century British History, Economic Affairs, Contemporary British History, Economic and Essays in Economic and Business History.