



Seven Big Things Professors Won't Teach You (But You Should Know)

Published by:



Tue, 13 Jun 2006 16:04:16 GMT
by John Forman

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Are you studying finance? If so, then terms like present and future value, efficient market theory, capital budgeting, arbitrage pricing and a whole slew of other exciting phrases are becoming part of your vocabulary. And if you're thinking about studying finance in college or graduate school, be prepared to be lectured on those topics and more during your coursework. This is all well and good. If you plan on a future in finance, you'll need a grounding in financial theory. Here's the problem, though. Your instructors won't teach you the good stuff, the stuff that can really help you excel in your job or make money in the markets. That all falls under the umbrella of "practical knowledge" which is not what college curricula are generally designed to pass along to young, eager minds looking to learn.

Have no fear, though! This report will help fill in the gaps. While it's impossible to cover everything you could possibly want to learn in this brief space, here you will be given seven specific areas of focus. It is my intent to provide you with something of a guide to help you go beyond your text books and take your financial education to another level. From there you'll be able truly accelerate your growth at a rapid pace, allowing you the opportunity to have more success. Ready? Let's go.

#1 You Really Can Make Loads of Money in the Markets

Have you ever had an instructor talk about all the money there is out there to be had trading the financial markets? Unless you've had the great fortune of having one of those rare professors who actually has experience doing just that (and there are a few), the answer is most likely, "No". This is because most finance faculty have had the efficient market theory drilled in to their heads for years. After all, every bit of research they have ever seen says you cannot make "excess profits". Well, that simply is not true.

If you want to trade the markets, or even think you might want to, then these three books by Jack Schwager are a must read: Market Wizards, The New Market Wizards, and Stock Market Wizards. These books are all essentially a collection of interviews in which the great money managers, investors, and traders of our time share their experiences with Schwager, a respected professional in his own right. These men and women have literally made billions in the markets. You get direct insight from these market luminaries, and Schwager also provides tons of educational content in his own right through glossaries, discussions of market topics, and outstanding summaries of the knowledge and understanding the interviews impart. Belief that you can achieve awesome results is



the first component to being successful, and the Market Wizard series will definitely make you believe! There are other books with a similar concept, but Schwager's works are by far the worth owning. You will absolutely read them again and again, and they will more than pay for themselves.

#2 The Stock Market is Not the Only Market

If you read the Market Wizards books noted in the previous section, you will quickly realized that there is money to be made in all sorts of different markets: stocks, bonds, currencies, commodities, futures, options. In fact, the equity markets are really a minor player in the realm of modern global finance. This is not something that gets a lot of play in the classroom, though. Why? Because of the focuses on portfolio theory, capital budgeting, and other subjects which end up have relatively little importance to the average financial professional. In particular, you should explore currencies and fixed income in more detail than what you will probably get in your classes.

The currency market (also known as foreign exchange, forex, or FX) is by far the largest. Currencies are usually discussed in an international finance type of course which provides a cursory coverage at best. Yes, the triangular arbitrage is important, but even with the advent of many so called "trading rooms" in business schools across the country, students are not being taught the real practicalities of forex trading and the impact of foreign exchange market movements on the rest of the financial system. The fact of the matter is that currency trading is now even easier than is the case for stocks. You can do it on-line, 24-hours per day. Those interested in learn more on the topic, or taking the plunge in to foreign exchange trading would do well to start with Cornelius Luca's excellent book *Trading in the Global Currency Markets*. It is a good introduction to the market, including the terminology and analytic methods one needs to talk the talk and walk the walk. For those with an interest in learning how some of the real currency superstars think, *Investment Biker and Adventure Capitalist* by Jim Rogers and *Soros on Soros and The Alchemy of Finance* by George Soros are well worth the read. Rogers is a well known investor and commentator and just the name "Soros" in and of itself has the power to move markets.

Perhaps even more important than foreign exchange, if smaller in actual trading volume, is the fixed income market. Fixed income encompasses tradable instruments ranging from very short term paper such as T-Bills, Eurodollars, and Commercial Paper out to long-term debt in the form of Treasury and Corporate Bonds, not to mention mortgage and asset backed instruments. Fixed Income securities are issued by governments, government agencies, municipalities and companies all over the world. The sad thing is how little coverage this topic gets in financial education. This despite the fact that the basis of fixed income is cash flow, which is also the core of most valuation methods currently taught in college business programs. Interest rates drive everything, from the action of the stock market to fluctuations in currency exchange rates. That is why even the slightest little comment from folks like Alan Greenspan and other similar monetary authorities around the globe is analyzed for its meaning and potential impact. An understanding of the fixed income markets will benefit you enormously, regardless of what area of finance you specialize in. To that end, *The Bond Market* by Christina Ray is a worthwhile reference. Ray breaks down the intricacies of fixed income securities in a very easy to understand fashion. Of course there is also Fabozzi's *The Handbook of Fixed Income Securities*, which can probably be found on every trading desk. The Fabozzi book is comprehensive in nature, where as the Ray book covers fewer topics, but breaks them down in a more manageable, practical way.



There are, of course, many other markets and tradables beyond these. The point I want to reinforce here, however, is that as a financial professional you need to be aware of what is happening in currencies and interest rates. Failure to do so means you will have an incomplete market picture for your analysis.

#3 The Mind is More Important than the Tools

In finance class we learn all sorts of things, like how to calculate present and future values and how to price securities. Finance is all about numbers, formulae, and analysis, right? Wrong! We are given all sorts of tools to use, but there is something very important missing - an understanding of the human mind and its impact on how those tools get applied, misapplied, or not applied at all. It would behoove anyone with an eye on the market activity to take a few psychology classes along the way.

The financial markets, no matter how they may be characterized otherwise, are a collection of individuals interacting with each other. As such, it is important for us to understand the impact of collective psychology. You merely have to watch the markets to see the impact of group think. The bubble in internet stocks that burst in 2000 is a perfect example. Clear-headed market analysis went out the window as everyone jumped on the bandwagon thinking that there was no way to lose. Then, on the downside it was the exact opposite. The no one wanted anything to do with stocks in certain sectors, not because of any legitimate evaluation, but because they had been burned before. This sort of thing happens to greater or lesser degrees all the time, in all time frames. A very good book on the topic is *Extraordinary Popular Delusions and the Madness of Crowds* by Charles MacKay and Bernard M. Baruch. It explores the whole topic of manias, especially where it relates to the financial arena, and should give you an excellent view in to mob mentality.

But we should not just think about the market when we think about psychology. If you want to be a successful trader or investor, you need to understand what's going on inside your own head as well. Being able to produce sustained above average returns takes more than luck. It takes a major mental commitment and knowledge of the pitfalls we can create for ourselves without even knowing it. We can have the best trading system in the world, but if we cannot stick to the methodology because we allow our mind to override the signals or analysis, what good is it? Dr. Van K Tharp, who is profiled in *Market Wizards* and has worked with a great many traders, put together an excellent work on the subject. *Trade Your Way to Financial Freedom* is a good follow-on to the *Market Wizards* series. Another good mental book is *The Way of the Warrior Trader* by Richard D. McCall, and *Trading in the Zone: Master the Market with Confidence, Discipline and a Winning Attitude* by Mark Douglas is a popular title on the subject as well. Be sure to take seriously the psychology of trading. It really can make the difference between success and failure.

#4 Technical Analysis is Respected

The weak form of the Efficient Market Hypothesis essentially tells us technical analysis, which focuses a lot on historical price movements, is worthless because it has already been factored in to the market price. As such, technical analysis has been widely looked down upon in academia for years. Well, the real word of trading and market analysis takes another view. It is true that



technicians were once a rare and misunderstood breed. Over the past decade or so, however, the discipline has become increasingly valued as a legitimate methodology. Academics still raise their eyebrows at the mere idea that one could make money looking at charts, but practitioners are paid to get results and many use technicals to do just that. As such, technical analysis should be seen as a legitimate analytic tool for your own work in the markets.

Here's the thing, though. Technical Analysis covers a vast array of techniques and methods. Some folks are chartists. Others use calculated indicators. Still others use astrology and other more esoteric methods. As suggested above, in a wide definition, technical analysis is the use of past market action to determine likely future action. The idea is that markets will react somewhat predictably to certain occurrences. Underlying that notion is the fact that people react somewhat predictably to stimuli, and the market is nothing more than a collection of people. Ah, ha! Psychology comes back again. I told you in the last section it was important.

I am not here to advocate technical analysis, though. It is merely one of many available tools. Some folks prefer it. Others are more fundamentally oriented, using earnings, economic conditions, etc. to determine valuation. A lot of it comes down to personality and interests. You learn the basics of fundamental analysis (pro forma earning projections, growth rates, discounting future earnings, etc) in your finance classes. If you learn technicals at all, is probably only in passing. It is up to you to explore the topic on your own. There are several very worthwhile resources at your disposal in that regard. Tops among them is John Murphy's *Technical Analysis of the Financial Markets*. This book is widely considered the bible of technical analysis and will give you an outstanding overview of the topic. The Steve Nison books on candlestick charting, starting with *Japanese Candlestick Charting*, are excellent as well. *Mind over Markets* by Eric T. Jones discusses the "Market Profile" technique, which is not widely known in academia but has many adherents in the markets.

Perhaps the best book on combining technical and fundamental analysis is *How to Make Money in Stocks* by William J. O'Neil. Among titles to consider about developing trading systems there are *Campaign Trading* by John Sweeney, *Street Smarts* by Laurence A. Connors and Linda Bradford Raschke, *Long-Term Secrets to Short-Term Trading* by Larry Williams, and *Trading Systems That Work* by Thomas Stridsman.

Anyone seriously considering the pursuit of technical analysis, personally or professionally, should consider joining the Market Technicians Association. The MTA provides a certification and other educational programs, and is a good way to meet technicians from around the world. Also, *Stocks & Commodities* magazine is the industry standard for the discussion of technical analysis and trading system design.

#5 You Can Trade Real Estate

You know all that accounting you have to learn, and all those finance basics they make you take before you get to the good stuff? Well, you can put that education to use in the real estate market right now. The most advanced topic one needs to understand to play the real estate market is that of leverage, or to put it another way, how to use other people's money (OPM). Property can be bought and sold just like any other asset. You can trade it, which basically means buying a property and selling it shortly thereafter, preferably at a higher price, oftentimes after doing some fix-up work.



You can also invest in real estate by going for longer-term price appreciation and/or cash flow from rents. The best part is, anyone can do it, regardless of income or education.

Analyzing a potential real estate purchase is much like doing fundamental analysis on a stock you might like to buy, and oftentimes with similar time frames in mind. You try to determine a fair market value, see what kind of returns you can generate, etc. Obviously, owning property does not provide the same liquidity, nor does it have the same kind of potential for that trading rush, but there are advantages. You can buy property for very little down, sometimes with nothing at all down. Can't do that with stocks where at a minimum you have to have 50% for the margin requirements. That means your potential returns in real estate can be truly exceptional.

With all this in mind, you would do well to learn all you can about real estate, and there is certainly a lot of information out there. If there is a class available to you, take it. Talk to people you might know in the business - realtors, bankers, attorneys, investors. It is not necessary for you to have loads of money, great credit, or any of what we normally get told are the requirements for buying real estate. Creativity, persistence, and a strong desire to succeed are more important. A couple of books that will help you learn some great techniques for building a real estate investment program are *Nothing Down for the 2000s* and *Creating Wealth* by Robert Allen, the man who put the concept of little or no money down on the map. Another worthwhile addition to your library would be *Ira Wealth: Revolutionary Strategies for Real Estate Investment* by Patrick W. Rice, Jennifer Dirks. This book provides a good discussion of how IRA accounts can be used to invest in real estate, despite what you might have been told by banks and brokers. Real Estate is a fantastic way to build wealth, and the best part is the tax code actually works in your favor! Make sure to take a look in to it for yourself.

#6 Study Personal Finance

Some colleges actually have personal finance courses available, but oftentimes business students consider such classes beneath them. I should know. I was one of them. It isn't high finance. There's no glamour in managing your checking account, and insurance can put one to sleep. Wrong attitude! A good understanding of personal finance will go a long, long way in life. In fact, it will probably be more valuable to you in the grand scheme of things than all the stuff in your finance course text books. Personal finance covers a wide array of topics. I will briefly touch on some of the bigger ones.

Savings and investment is probably what most people think of when we talk about personal finance. In short, it is what you do with the income you have above and beyond your normal living expense, commonly referred to as discretionary income or funds. Obviously, retirement savings is a hot topic. You need to be fully educated on whatever program your employer provides, if any, and what options you have outside that. Make the best use of what's available to you. The more funds you can get to work early, the better for the long term situation thanks to the magic of compound interest. At the same time, you should be putting money aside in a rainy day fund. You will hear different experts recommend anything from a month to a year worth of salary as a reserve against loss of income, emergencies, etc. Your situation will dictate what is right for you, but something should definitely be set aside in a secure, easily accessible place. Of course if it's your ambition to trade, you'll want a program in place to build up a sufficient bankroll for that purpose. In most



cases, \$5000 is the recommended minimum. Starting much lower than that will make transactions costs significant, plus you will have fewer options in terms of working within a risk structure suitable to your needs.

A very important area of personal finance, and one that needs more focus, is debt use and management. We are a society fueled by debt. That has its plusses and minuses. Borrowing, when handled properly, allows us to do things we would not have been able to do otherwise: buy a car or a house, pay for our education, fund investments, etc. Unfortunately, too many people misuse debt, especially credit card debt, and get themselves in trouble. A lot of these problems can be remedied through discipline. Do you really need those DVDs? Are you dining out more than your budget allows? Remember, you are going to have a hard time building up investment capital if you have to pay all your excess earnings out to the credit card companies. Moreover, you do not ever want to put yourself in a potential bankruptcy situation? It takes a long time to recover from that kind of filing.

The last big personal finance topic we will cover is estate planning. For a young person that sounds like something way off in the future. True, it is, but that does not mean there are not things you need to be looking at now. Do you have a will? Not everyone really needs one, but if you have assets you would like to make sure go to those you want receiving them should anything ever happen, you should put something together. The process is not that difficult. Do you have life insurance? Again, you may not need it. Many single people do not, whereas most folks with a family should probably have a policy. It's a topic a lot of folks hate even think about, but it is well worth the time.

There are a lot of things related to personal finance you can do now, or at a minimum learn about, that can help you throughout your life. For example, taxes will be an ever present part of your life. Understanding them, even if you never do your own returns, cannot help but provide benefits. Take that view with the whole arena of personal finance. Make it a habit to explore something new all the time. You never know when it could come in very handy. Maybe you'll even do it for a living!

A very useful tool for improving your personal finance acumen is Cashflow® , a game you can play in board version, or on your computer. The game covers a wide range of topics in a fun, entertaining fashion.

#7 Beware of the Experts

Thinking for yourself is a good thing. Learn to do your own due diligence when it comes to your money. There are lots of so called experts out there. They get quoted in the media all the time. Be careful what you read in to that, though. Newspaper columnists, for example, want something to keep the reader's attention, make them come back again. Sometimes that means people get quoted, even though they really do not have much to say. An expert is born! I speak from experience on this topic. Myself and my former colleagues often had inane comments not even intended to be serious analysis find their way in to major columns. We're talking significant business media, not to mention getting picked up by the wires and local papers across the country. Reporters also have favorite interview sources. That can be great if the source is good, but if not the interviews and quotes will give credibility to one who may not deserve it. For that reason, you should really take anything you hear or read with a grain of salt. People have a lot of different perspectives which will



not always match your interests.

There's also the fact that sometimes even the best and the brightest can really mess up royally. We need look no further than Long Term Capital Management (LTCM) to see that. A group of very smart, very successful traders did quite well for a while. Then, it all fell apart and forced some major action by the monetary authorities to prevent what could have been a global financial market disaster. You can learn more about LTCM by reading Roger Lowenstein's well titled book *When Genius Failed*, which documents the rise and fall of the firm and its major figures. There was also a PBS documentary you can get on video called *Trillion Dollar Bet* which covers mostly the same topic.

The bottom line is that you need to make sure of the value you are getting from these so-called experts. Use your own education, experience and basic common sense, mixed in with a good dose of research, to see if what they have to offer is a) credible and b) worthy of your attention. Even then, once you have decided that they can help you toward your goals, make sure any recommendations you receive fit in with your situation.

By the way, this goes for you too. Do not allow yourself to get big in the head once you have achieved some success and set yourself up for a major reversal. The old saying "Pride goeth before the fall" is very true. If you are not careful, you can lose track of what made you successful and find yourself suffering a major set-back. Refer to some of the interviews in the *Market Wizards* books noted earlier to examples.

Hopefully you have at least started the process of expanding your financial awareness beyond the narrow bounds of what college finance programs provide. The finance industry and markets can be both incredibly rewarding and highly frustrating. If you take the contents of this report to heart and use it to guide your own personal education, I think you will find yourself experiencing more of the reward and less of the frustration.

I was never the best student growing up. Homework wasn't something I focused on a whole lot as a kid, especially when I could just get it done in homeroom! We're not kids anymore, though. If you haven't already, you will come to find that homework is an important part of life. I refer not to bringing work home from the office, however. Instead, I mean being prepared. Whether it's an interview, a meeting, a class, a trade or investment, or just life in general, it always is best to go in prepared. Consider the topics addressed in this report, and do your homework.

Published on [Tue, Jun 27 2006, 08:56 GMT](#)