

FOREWORD

This book seeks to answer many a question about the stock market: why invest in stocks, how to invest in stocks, how to value stocks, how to change the risk profile of portfolios, how to analyze the results of stock investing, and how to minimize estate taxes and to maximize control, even after death.

The book covers all aspects of the stock market to include the basic tools that will allow the reader to understand the stock market basics, the history of the stock market performance in the US and overseas, the various ways to value stocks and to assess their risk, and the various methods that have been proposed to capitalize on the inefficiencies of the stock market, be they temporary or permanent.

The book debunks many of the convenient theories to explain the performance and the behavior of the stock market. It does so in very rigorous ways. It analyzes every aspect of past performance of the stock market. There are many books on this last issue alone. We match them and exceed them in many cases. We show the serious problem in the various stock valuation techniques that typically yield different results. This may explain the price bubble that had recently burst. The book presents also a comprehensive, easy to understand chapter on stock options and deals effectively with tax planning and setting up trusts. Hedging, speculative, and arbitrage strategies and tools involving stock options market are examined as an integral part of a system that will

permit the investor to establish optimal risk/return tradeoffs meeting his/her risk profile.

The section on estate planning is necessary in order to critically examine the methods for maximizing intergenerational wealth transfer, largely through tax planning devices, and to make sure, if and when necessary, that transferred wealth is controlled by the person who generated it, even after his or her death.

The book has a simple and very rigorous way for presenting the materials and for settling, if only nominally in some cases, long standing controversies or myths about the stock market.

The book is very rigorous and often mathematical. The latter is kept to a minimum in order to maximize the readability and the accessibility of the book. The book settles many an argument and strongly supports many a hypothesis about the capacity of certain strategies to beat the market. The historical analyses of stock market performances all over the world leave no doubt that that the stock market is the investment vehicle of choice when compared with inflation and any other investment vehicle. The lessons for developing economies in all of this is to improve economic efficiency and to foster the development of financial markets as this is the fastest way to wealth creation and for spreading democratic, capitalism all over the world.

The book will be useful to educators, professionals, and sophisticated investors. It will be useful in investment courses, corporate finance courses, speculative market courses, and courses on the stock market. It will also be useful in financial certification courses as well.

Two colleagues at UCR examined different portions of the book. We are grateful to Jerry Liu and to Vasilis Polimenis. We are also grateful to many reviewers whose comments improved the structure, the flow and the contents of the book. Of course, we remain responsible for any and all remaining errors.