[PDF] Contrarian Investment Strategies - The Classic Edition

David Dreman - pdf download free book

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Description:

All stock-market investors embrace the motto "Buy low, sell high." Few act accordingly, however, for to do so would require that we go against the crowd, buying stocks that are out of favor and selling Wall Street's darlings. Powerful psychological forces prevent us from pursuing a contrarian investment strategy, although it consistently beats the market, according to David Dreman, a seasoned money manager and long-time columnist for *Forbes* magazine. One of the Street's bestknown and most articulate contrarians, Dreman has updated his 1982 investment classic, *Contrarian Investment Strategies*, using recent research on investor psychology. His revised book combines proven techniques for selecting undervalued stocks with fresh insights on how to defy, and thereby profit from, the popular fears or enthusiasms of the moment.

Dreman pays only cursory attention to a company's business fundamentals in deciding whether to invest in it. Instead he looks for stocks trading at below-market multiples of per-share earnings, cash flow, book value, or dividend yield. Historically, Dreman claims, stocks that are cheap by any of these measures have tended to outperform the market average, although this is disputed by those who believe the stock market is efficient and therefore impossible to beat except by accident. Dreman devotes many pages to debunking their research. He offers a new refinement of his low-price strategy, which involves picking the cheapest stocks within industries, to create a diversified, contrarian portfolio.

Contrarian Investment Strategies: The Next Generation is full of practical and provocative advice, but some of its most interesting passages delve into the abstruse findings of cognitive psychology. This research has proven that we are woefully inadequate as intuitive statisticians. Interpreting data to make predictions about the probability of future events, we consistently make the same mistakes. For example, we exaggerate the likelihood that current trends will continue, even when they are historically exceptional. (Logic dictates that trends are more likely to regress toward the mean.) This fallacy explains why most Wall Street insiders were gloomiest about stocks in 1981, after six years of falling prices, just before the beginning of the greatest bull market ever. Is today's widespread optimism among investors a reason for caution? Dreman thinks so.

It seems our brains are hard-wired to underperform the market. That's why few investors can keep to a contrarian approach. Dreman recommends buying stocks when prices fall, the worse the panic the better. But that requires overriding powerful instincts.

Besides reflecting Dreman's wide reading in finance, psychology, and history, his book also displays his sometimes windy and self-important writing style. At 464 pages, the book is not a quick read. But its intellectual depth and thoroughly tested advice make many other investment books look paltry and superficial by comparison. Serious, independent investors will find it rewarding. *--Barry Mitzman*

From Library Journal Manager of the Kemper-Dreman High Return Fund and chair and CEO of Dreman Value Management, Dreman analyzes contrarian investment strategies for the 1990s and into the 21st century, defining contrarian investment as involving buying and selling securities by going against the crowd and prevailing investor opinions. He emphasizes the importance of investor psychology, which he terms "the necessary link required to activate the contrarian strategies we will now examine." Additionally, Dreman describes investor overreaction as a response to events in a predictable fashion: investors "consistently overvalue the prospects of `best' investments and undervalue those of the `worst.'" He presents and discusses 41 contrarian investment rules involving such factors as stock performance, political and financial crises, volatility, and analysts' forecasts. Especially interesting are the specific case studies involving the effect on the securities markets of major crises such as the 1987 stock market "crash" and the Gulf War. Highly recommended for business collections in both public and academic libraries.?Lucy T. Heckman, St. John's Univ. Lib., Jamaica,

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