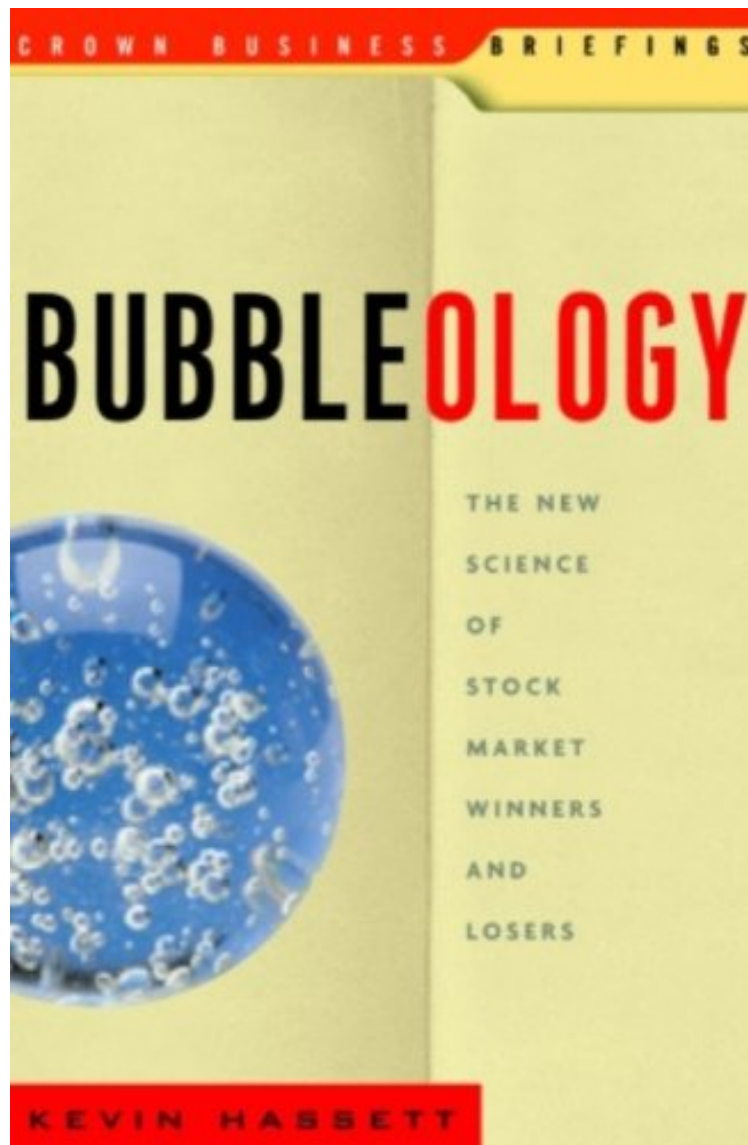


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## **Bubbleology: The Amazing Science of Stock Market Bubbles (Crown Business Briefings)**

*Kevin Hassett*

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**Kevin Hassett : Bubbleology: The Amazing Science of Stock Market Bubbles (Crown Business Briefings)** before purchasing it in order to gage whether or not it would be worth my time, and all praised Bubbleology: The Amazing Science of Stock Market Bubbles (Crown Business Briefings):

13 of 15 people found the following review helpful. ABy A CustomerDespite Mr. Hassett's track record with his

previous book "Dow 36,000," I saw him appear on CNBC during the early morning show and thought that he did well enough that I should buy the book. He promised that you could use his book to figure out what stocks were overvalued and which ones weren't. A pretty important topic given the current market environment. However, after reading this short book I have no idea of how to actually rank stocks on the 1 to 6 scale that he uses. He doesn't actually provide concrete examples, only that he says that he put together this ranking and it worked really well. My other problem is that if this approach works so well how come he didn't use it when his "Dow 36,000" book came out when the stock market was at its peak. Some explanation would have been useful for why Hasset, who is marketing this book as a full proof approach to spotting bubbles, wasn't able to use this approach himself over just the last couple of years to warn people and predict which stocks were going to crash, a period when he was supposedly writing this book. Claiming that you use a not clearly stated formula to identify overvalued stocks after they have already crashed seems like a scam to me.

3 of 6 people found the following review helpful. Ellsbergian ambiguity (Keynesian uncertainty) leads to Bubbles

By Michael Emmett Brady Hasset has improved his scholarship immensely in the present book over his previous, co-authored book with James Glassman, written in 1999, which predicted a Dow of 35,000 by late 2005. The fundamental problem underlying the formation of a boom-bust stock market (herd, crowd, and momentum investing, financed in large part by margin account loans, that leads to manias, bubbles, panics, crashes and subsequent economic downturns) is the inherent ambiguity (uncertainty) of the information or data upon which stock market participants are basing their expectations and probabilistic forecasts of future price changes. The inability to form reliable probabilistic forecasts of future market outcomes leads perfectly rational decision makers to start to follow other market participants who they think might be somewhat better informed. The formation of herd behavior is then started and you are well down the road to boom and bust capitalism. Hasset correctly credits D. Ellsberg, F. Knight, and J. M. Keynes for providing the fundamental concepts underlying his "new" "science" of stock market analysis. Essentially, any type of classical-neoclassical analysis based on the assumption of normality (a normal probability distribution a la the efficient markets type of reasoning) is shown to be badly misleading and very inaccurate. The ambiguity (uncertainty) versus risk distinction is of fundamental importance for any type of financial investing or modeling. There are two significant omissions in Hasset's book. The first omission is Ellsberg's 1962 dissertation, recently published in 2001. Hasset gives Gilboa and Schmeidler unwarranted credit for incorporating optimism-pessimism into Ellsberg's decision theoretic technical structure. Ellsberg had already integrated a generalization of the Hurwicz optimism-pessimism index into his general model of decision making under ambiguity in the very important chapter 7 of his dissertation. Gilboa and Schmeidler, unfortunately, conflate the existence of ambiguity with optimism and pessimism. Supposedly, optimists are ambiguity preferrers and pessimists are ambiguity averse. Decision making that is conservative in nature, i.e., careful, prudent, circumspect, that "does not rush in where angels fear to tread", also appears to be mislabeled as "pessimism". Ellsberg makes it completely clear that his rho index is separate from his optimism-pessimism index. Likewise, conservatism in decision making is not the same as pessimism in decision making under conditions of ambiguity. Gilboa and Schmeidler deserve some credit for applying a more advanced mathematical technique [Choquet integration using capacities (convex-concave), a generalization of mathematical probability functions that allow non additivity (sub and super additive capacities) to be incorporated using ranked data]. However, they have made no theoretical or empirical advance over Ellsberg's chapter 7 presentation. The purely mathematical advance made by Gilboa and Schmeidler appears to have been overemphasized in the economics journal literature. Gilboa and Schmeidler need to straighten out their analysis so as to separate ambiguity from optimism-pessimism and distinguish conservatism from pessimism. The second major oversight made by Hasset is that none of the 50 years of work done by Benoit Mandelbrot on analyzing stock and financial market pricing data is referenced. Mandelbrot's mild risk (normal distribution-random walk-efficient markets-independence-continuity) versus wild risk (Cauchy distribution-discontinuities-long and short run dependence-correlated variances) distinction is of great importance theoretically and empirically. Mandelbrot has established empirically the unstable, boom-bust nature of capitalism. The markets are far, far more risky than is assumed by the economics establishment. An overwhelming case can be made that the work of Ellsberg and Mandelbrot is so important that they should receive the Nobel prize in economics in 2006.

3 of 6 people found the following review helpful. Short, fun, practical read

By John R. Lott Jr. I am somewhat more dubious than Kevin Hasset is about the existence of "bubbles" (e.g., see Peter Garber's excellent review of the history of bubbles in "Fables that Aren't Worth the Price of a Tulip"), but given that Hasset provides the latest academic research in an understandable readable way on how to spot when bubbles might be occurring, this is a very useful book. I think for the vast majority of readers the book strikes the right balance between practical usefulness and technical detail. It is a hard task, but I have rarely seen someone take what can be such technically complicated issues and get the logic of what is going on in such a straightforward way. For investors, this is a very useful book to read.

There are only two types of stocks: those safe from bubbles and those that are not. This is a fact of investing many discovered as they saw their fabulous gains whittled away by the extreme calamity of the Internet sector. But what about the future? Is there a way for investors to capture the enormous potential for profit that exists at the frontier of

the economy, the place where innovation and genius operate, without placing their fortunes in jeopardy? Is there a way to evaluate price increases—and declines—and identify whether they are happening for good or bad reasons? Bubbleology makes it possible to separate the winners from the losers. It is a brilliant, practical, and original analysis of the stock market that bashes the conventional wisdom about bubbles, showing that such famous examples as Tulipomania were not, in fact, bubbles at all. Bubbleology shows that the traditional way of evaluating risk—equating it with volatility—is inherently flawed and incomplete. If a stock fluctuates a lot in price it is regarded as risky. If the price is stable, then it is not. What this simplistic way of thinking leaves out is the simple fact that companies trying something completely new that may fundamentally alter the economic landscape are operating at the frontier. The stock of such a company swims in a sea of ambiguity, its circumstances uncertain, since there is little to provide guidance about the future. But when nobody knows for sure what will happen, pundits tell us again about Tulipomania, the South Seas Bubble, and now the debacle of the Internet to scare investors away from potentially enormous profits. To realize those profits, however, investors have to understand the role that uncertainty and ambiguity—the absence of reliable information about future events—play in the modern stock market. Those who equate ambiguity with bubbles will miss the great opportunities of the future. Bubbleology provides a new way to observe what is really going on in the market, enabling you to understand whether a stock or a sector is suspicious—whether it is in a bubble and therefore something to be avoided. Finding bubbles requires knowing where to look and what to look for. Bubbleology will help you avoid both streaming into speculative manias and shying away from perfectly good business opportunities. It tells you why you need to avoid both pontificating pundits and overconfident stock analysts. With this unique and forward-thinking book, you can inspect suspicious stocks, accurately discern risk, and diagnose a blossoming bubble before it vanishes along with your money. From the Hardcover edition.

From The New Yorker In the wake of the Nasdaq's precipitate decline, investors who were once boundlessly exuberant are now hopelessly downcast, convinced that the market is doomed to an endless series of boom-and-bust cycles. Adroitly synthesizing work from the fields of economics, evolutionary psychology, and social science, Hasset shows that the kind of frenzy we saw at the height of dot-com mania, far from being characteristic of financial markets, is actually relatively rare. A bubble, he argues, is almost always the product of technological upheaval, which creates great economic potential but also great economic uncertainty. Investors looking for guidance take their cue from each other, encouraging a herd mentality, and individually rational behavior creates a collectively irrational outcome. Still, for all the havoc that bubbles can wreak on our portfolios, they can also provide collective gains: the railroad bubble gave America its first transportation network, and we will be reaping the technological benefits of the Internet boom for decades to come. Copyright copy; 2005 The New Yorker "Financial bubbles are serious business. But in the hands of Kevin Hassett, they're also a blast. His Bubbleology is as enlightening as it is fun to read."—Jeffrey H. Birnbaum, Washington, D.C., bureau chief of Fortune magazine and contributor to Fox News Channel From the Hardcover edition. From the Inside Flap There are only two types of stocks: those safe from bubbles and those that are not. This is a fact of investing many discovered as they saw their fabulous gains whittled away by the extreme calamity of the Internet sector. But what about the future? Is there a way for investors to capture the enormous potential for profit that exists at the frontier of the economy, the place where innovation and genius operate, without placing their fortunes in jeopardy? Is there a way to evaluate price increases—and declines—and identify whether they are happening for good or bad reasons? Bubbleology makes it possible to separate the winners from the losers. It is a brilliant, practical, and original analysis of the stock market that bashes the conventional wisdom about bubbles, showing that such famous examples as Tulipomania were not, in fact, bubbles at all. Bubbleology shows that the traditional way of evaluating risk—equating it with volatility—is inherently flawed and incomplete. If a stock fluctuates a lot in price it is regarded as risky. If the price is stable, then it is not. What this simplistic way of thinking leaves out is the simple fact that companies trying something completely new that may fundamentally alter the economic landscape are operating at the frontier. The stock of such a company swims in a sea of ambiguity, its circumstances uncertain, since there is little to provide guidance about the future. But when nobody knows for sure what will happen, pundits tell us again about Tulipomania, the South Seas Bubble, and now the debacle of the Internet to scare investors away from potentially enormous profits. To realize those profits, however, investors have to understand the role that uncertainty and ambiguity—the absence of reliable information about future events—play in the modern stock market. Those who equate ambiguity with bubbles will miss the great opportunities of the future. Bubbleology provides a new way to observe what is really going on in the market, enabling you to understand whether a stock or a sector is suspicious—whether it is in a bubble and therefore something to be avoided. Finding bubbles requires knowing where to look and what to look for. Bubbleology will help you avoid both streaming into speculative manias and shying away from perfectly good business opportunities. It tells you why you need to avoid both pontificating pundits and overconfident stock analysts. With this unique and forward-thinking book, you can inspect suspicious stocks, accurately discern risk, and diagnose a blossoming bubble before it vanishes

along with your money.