Notes to book "Super Money," by 'Adam Smith'

1972

I read this book in the winter of 2007/2008. I am trying to recall if I read it while skiing in Vermont or Lake Tahoe. Yet, based on the financial events of 2008, I can with great confidence state that most of my readings in the winter of 2008/2009 will either be at home or on the East Coast. Still hopes of Vermont, but certainly only if accommodations can be had for a pittance of the past.

Babson's List of Villains:

1) The conglomerate movement, "with all its fancy rhetoric about synergism and leverage."

2) Accountants who played footsie with stock-promoting managements by certifying earnings that weren't earnings at all.

3) "Modern" corporate treasurers who looked upon their company pension funds as new-found profit centers and pressured their investment advisers into speculating with them.

4) Investment advisers who massacred clients' portfolios because they were trying to make good on the over-promises that they had made to attract the business.

5) Investment managers who brought and churned the worst collection of new issues and other junk, and the underwriters who made fortunes bringing them out.

6) Elements of the financial press which promoted into new investment geniuses a group of neophytes who didn't even have the first requisite for managing their own money, much less other people's money, and a lack for sense of responsibility.

7) The securities salesmen who peddle the items with the best stories – or the biggest markups – even though such issues were totally unsuited to the customers' needs.

8) The sanctimonious partners of major investment houses who wrung their hands over all these shameless happenings while they deployed an army of untrained salesmen to forage even less trained investors.

9) Mutual fund managers who tried to become millionaires overnight by using every gimmick imaginable to manufacture their own paper performance.

10) Portfolio managers who collected bonanza incentives of the "heads I win, tails you lose" kind, which made them fortunes in the bull market but turned the portfolios they managed into disasters in the bear market.

11) Security analysts who forgot about their professional ethics to become storytellers and let their institutions be taken in by a whole parade of confidence men.

Smith followed the list with this sentence. “This was the “list of horrors that people in our field did to set the stage for the greatest bloodbath in forty years,” Babson said.”

Here is a blurb of how he described reading a friend’s novel. If I am not mistaken, the friend was to be a banker, but a banking crisis had put those plans aside. Smith wrote of the reading, “…maybe I did learn something. It was set in the near future. The world was involved in a financial crisis. Treasury officials from various countries were flying from capital to capital.” Sounds so autumn 2009.

He writes in Chapter 5, “There is only one Dean of our profession, if security analysis can be said to be a profession. The reason that Benjamin Graham is undisputed Dean is that before him there was no profession and after him they began to call it that.” Smith went on discussing Graham and discussed one of his occasional meetings. Smith asked him what he thought of the recent market slide. He asked for advice. Graham said, “Oh, I don’t keep up anymore.” “I only own one stock and the rest are municipal bonds. But these periods have come before. This too will pass.” Smith asked, “What was the one stock.” Graham replied, “That’s just left over, Government Employees Life Insurance; we owned the whole company at one point. I don’t even keep up with that.

Graham discussed how he had a new edition of ‘Security Analysis’ coming out. Graham mentioned there were only two people he would want to work on that book with him. One was ‘Adam Smith.” The other was Warren Buffett. Smith asked, “Who is Warren Buffett?” Smith explained, “That it turns out, was a rather extraordinary question at the time.”

He discussed Buffett, and this was interesting to me. “The money managers of the sixties habitually took a record of one or two hot years, gave it to the salesmen, a let them bring in the people. Buffett’s record ran for thirteen years and wasn’t merchandised in anyway…” Warren later in the chapter was quoted as saying, “To win, the first thing you have to do is not lose.”

Smith asserted that Warren wrote to his partners every year. “I can not promise results to partners.” “What I can do is promise that:

1. Our investments will be chosen on the basis of value and not popularity;
2. Our patterns of operation will attempt to reduce the risk of permanent capital loss (not short-term quotational loss) to a minimum; and,
3. My wife, children and I will have virtually our entire net worth in our partnership.”

In part IV, titled, ‘Is the system blown?” Smith hints at not to trust the financial statements. I interpret this as looking closely at the statements, and to examine and twist them via financial statement analysis. I have forever focused on this concept. As I write this, I hope that my “quotational losses” do not become permanent. He discusses many an accounting topic, ranging from inventory calculations to earnings manipulations. He interviewed several people, and the common themes were “signatures were worthless.”
Again, I gather that Smith is advocating professional skepticism and the concept that “doubt is central to understanding.” He does mention that he believes the “majority of companies play it quite straight.”