Loeb, Gerald M. - The Battle for Investment Survival

John Wiley & Sons, First ed 1935, [Equity Investing] Grade ★★★★★

Gerald Loeb was a well-known Wall Street profile for over 40 years. As a partner of the investment bank E.F. Hutton he broked stocks, but more importantly, he invested his own and other investors money. On top of all, he wrote popular columns in Barron's and Wall Street Today about his investment strategies and how they kept him out of the market mayhem in 1929 to 1932. As Loeb had become somewhat of a celebrity by the time this book was released it was an instant hit. It has been in constant demand from traders henceforth with reprint after reprint.

Two years into Loeb's career and just when he had started to manage clients' money, the crash of 1923 wiped out most of the funds he had responsibility for. The losses and the apparent riskiness of stocks affected the young Loeb deeply and formed the investment philosophy he used going forward. In a stock market where you have to "fight for your survival" Loeb advised to only invest in the strongest leadership stock in upwards trending markets. If the market trend is down, stay in cash. If you are unsure if the trend is up or down, stay in cash. "The way to build long-term returns is through preservation of capital and home runs."

Loeb's book came out at about the same time that Ben Graham's Security Analysis was released and in some ways it is the antithesis of Graham's teachings. Loeb is almost agitational when it comes to valuation multiples. Intrinsic values might exist, or they might not, but while waiting for the market to, at some time in the distant future, accommodate your view of this highly uncertain value the investment was exposed to the whims of the market. For Loeb this was an invitation for disaster. I think what Loeb is really arguing against is a buy-and-hold-strategy rather than a value strategy per se. Given his 1923 experience and the vindication he received in 1929/32 this is no wonder. I also think the approach is highly relevant today. The market has historically moved in 15 to 20 year-long valuation driven cycles. Right now we are in a phase where the secular trend is sideways, with violent cyclical swings. Hence the risk of not being fully invested in the stock market at all times is low. In a few years from now the market will have grown into its valuation and then the risk of not being fully invested will be high. Hence, today is not the time to be a buy-and-holder, but in a few years it might be.

For anyone who has read a more modern day text on trend following or trading, most of the advice Loeb gives will be very familiar. This is no surprise since this is one of the creeds for all the later books. Loeb searched for a combination of roughly 5 - often cyclical - companies at the time with leadership positions in their line of business, with strong corporate financials and where the trend of the stock and the trading volume was favourable. He only bought stocks where the potential was massive or else the risk was that the investment would turn sour. He wrote down the "single ruling reason" for his investment and reviewed the investments after they have been terminated. Further, Loeb cut losses short and rode his winners. He advised to understand the psychology of the crowd but try not to join it. Timeless advice.

In its original 1935 edition the book had 33 chapters of 3 to 4 pages each. In the later 1965 edition another 45 similar sized chapters consisting of miscellaneous articles was added. Given that the organization of the original book is non-existent the randomness of the topics in the added chapters doesn't change the character of the book – the text is confusing, repetitive and un-organized. The reading experience is saved by Loeb's passion, deep market insight and real life examples. There are plenty of nuggets here but you have to dig hard for them.

There are few other books where the author is as in sync with the market. Loeb isn't handing us his insights on a plate but there is plenty there for those who are ready to do the work.

Mats Larsson, April 7, 2012