

Muzea, George - The Vital Few vs. The Trivial Many

John Wiley & Sons, 2005, [Equity Investing] Grade ★★☆☆

No matter how much you research the stocks you invest in there are always some that know the companies even better: the management. Imagine if you could employ them part time to work for you. In a way you can. George Muzea has spent the main part of his 40-year career in the financial markets advising clients like Stanley Druckenmiller of George Soros Fund Management on how to profit from the insider trading of managements. This book is written in an autobiographical form and aims to help individuals to be self sufficient as investors by following the actions of those Muzea calls the Vital Few. To a large extent though this book deals more with what you can learn from the Trivial Many.

Layered with plenty of anecdotes of the events that came to influence Muzea's investment strategy he presents his framework for knowing when to be in or out of the stock market. The system, called The Magic T, is a T account listing five factors on the left side if the investor should buy equities or on the right side if it's time to stay away. Four of the factors are contrarian in nature; advisory sentiment, mood of the media, mood of friends and acquaintances and the state of the market. They represent the Trivial Many and when they are upbeat or even exuberant, a savvy investor should look to do the opposite. One of the factors is exactly that, looking to what the savvy insider investors are doing and following their lead. If everybody else is depressed but insiders are starting to put their own money on the line by purchasing stocks investors would do well taking notice.

This is an agreeable book written in a conversant style and the contrarian message is possibly addressing the main mistake investors make:

buying high and selling low due to linear extrapolation (and in investors I certainly include institutional ones). It's also always a great feat when experienced market participants summarize and share their career insights.

However, I can't help feeling a bit cheated. The reason is that looking to the title, the endorsements and the back of the book you get the feeling that it would be a deep dive in insider investing. I would say that Muzea's anecdotes from the marines, from playing tennis and from the investing world; his general contrarian market timing system; and insider investing represents one third each of the content. Yes, these topics are all connected but I would have wished a different allocation of space - especially when two guest writers add their independent separate primers on technical analysis.

That said the presented advice on insider trading is both sound and interesting. The notion of mapping the insiders individually, analyzing their historical behavior and categorizing them into value insiders and catalytic insiders to further understand the signals they send (especially if it differs from their normal behavior) makes perfect sense, so does differentiating the signaling value in up markets and down markets and I must admit that due to conventional - faulty - wisdom I had written off the signals sent by insider selling, when in reality at times there are things to learn from this.

This is a book on the importance of performing sound analysis, of trusting your own judgment instead of the current opinion of the masses and above all it tries to bring forward that it is vital to have an operational investment strategy and stick to this. Good advice indeed.

Mats Larsson, May 7, 2014