

Taghizadegan, Rahim et. al – Austrian School for Investors

mises.at, 2015, [Finance] Grade ★★ ★

Macroeconomic equilibrium models – be they classical or Keynesian – often feel unnatural for investors who have to cope with a world that rarely shows any signs of stable equilibriums. Because of this the Austrian School of Economics has long attracted certain types of investors. Austrian theory takes its starting point in the entrepreneur and looks to the constantly changing investment cycle that inevitably leads to periodic under- and overinvestments in productive capacity.

This book aims to take the reasoning of giants like Carl Menger, Ludwig von Mises and Friedrich Hayek and makes it applicable for investors. The text is a collective effort by Rahim Taghizadegan an economic philosopher, Ronald Stöferle an investor specialized in precious metals, Mark Valek an investor focused on alternative assets and the independent trader and blogger (acting-man.com) Heinz Blaznik.

About three quarters of the book is a description of the philosophical implications of Austrian economic theory on the governance of economies and financial markets. The authors try to build a philosophical base that will allow the reader to form a point of view of investing that builds on the theories of Mises and the others. The last quarter of the text then discusses how to invest in accordance with such a view.

Similar to many who use Austrian investment principles the authors prefer portfolios with fixed asset allocations that one rebalances to periodically. A long list of investable assets are described and analyzed from an “Austrian view”. Gold is often an important asset for Austrian economic thinkers as they often have a focus on capital preservation and – with a grim view of monetary politics – on inflation protection. However, with the view that the economy is too complex to predict with precision, the portfolio allocation should preferably be able to cope with any type of economic environment. Here the authors present Harry Brownes “permanent portfolio” from the 1970s

that contains one quarter each of gold, cash, bonds and stocks.

With an economic theory that builds on investment in productive capital through a capital cycle it should surprise few that, with regards to stocks, long-term investments in companies that earn a high return on invested capital is advocated. Valuation measures that relate the market price to the replacement value of companies’ productive capital has long been used by Austrian theorists and today’s Tobin’s Q fits well into this category. According to the authors Austrian investing and value investing are relatively parallel when it comes to stocks but the former puts more emphasis on macroeconomic factors.

I have a few objections to the book. They shouldn’t be seen as objections to Austrian economics in general which I hold in high esteem. Some of the earlier chapters are painfully idolizing when describing the founding fathers of Austrian economics. Yes, they were groundbreaking and genius thinkers and stand for a sane view of economics in today’s perverted monetary environment but they were hardly semi-gods.

Further, I find it hard to understand the target audience for the book. A private investor could appreciate the asset allocation advice but does he really want to read 250 pages of political philosophy first? Economists could find the philosophical section interesting but for them the investment part feels somewhat too short and simple with a lot of emphasis of explaining the basics of various asset classes and financial products. It is almost as if *Austrian School for Investors* were two separate books – one long on economic philosophy and one short on asset allocation and investing.

For the reader interested in Austrian economic philosophy this is a good book. As a primer on Austrian investing it could have been better.

Mats Larsson, July 24, 2016