

## Preface

This book is intended for students and practicing investment managers. Its purpose is to describe briefly and simply the modern theory of investment management and some of the evidence underlying that theory.

It would be foolish to pretend that complex ideas can be fully explained in a short space, and often I have relied on intuitive arguments or dogmatic statements rather than proof. I hope nevertheless that the book manages to whet your appetite even if it does not fill your stomach.

When the first edition of *An Introduction to Risk and Return from Common Stocks* was published in 1969, systematic research into investment management was a recent innovation and had had little effect on the investment community. Since that time investment practice has been substantially influenced by these new ideas, and it is no longer possible for the manager of a large portfolio to ignore them.

This new edition reflects two other developments. First, there now exists a much more cohesive theoretical framework for thinking about investment problems. Second, there is now an abundance of new empirical studies of the behavior of stock prices, and this has compelled me to be much more selective in my choice of empirical evidence. I have for the most part described the classic studies rather than the most

recent ones, but I have added a fairly extensive set of references for those readers who like to explore.

In summarizing the work of other financial economists I have incurred many debts. One of my greatest obligations is to the late Paul Cootner who encouraged me to write the original edition. I am also conscious of the pervasive influence that Jack Treynor has had on the ideas that are presented in this book, and to him I am especially grateful. Finally, I should like to thank Peter Bernstein, Elroy Dimson, Julian Franks, and William Sharpe for their many helpful comments on the manuscript.