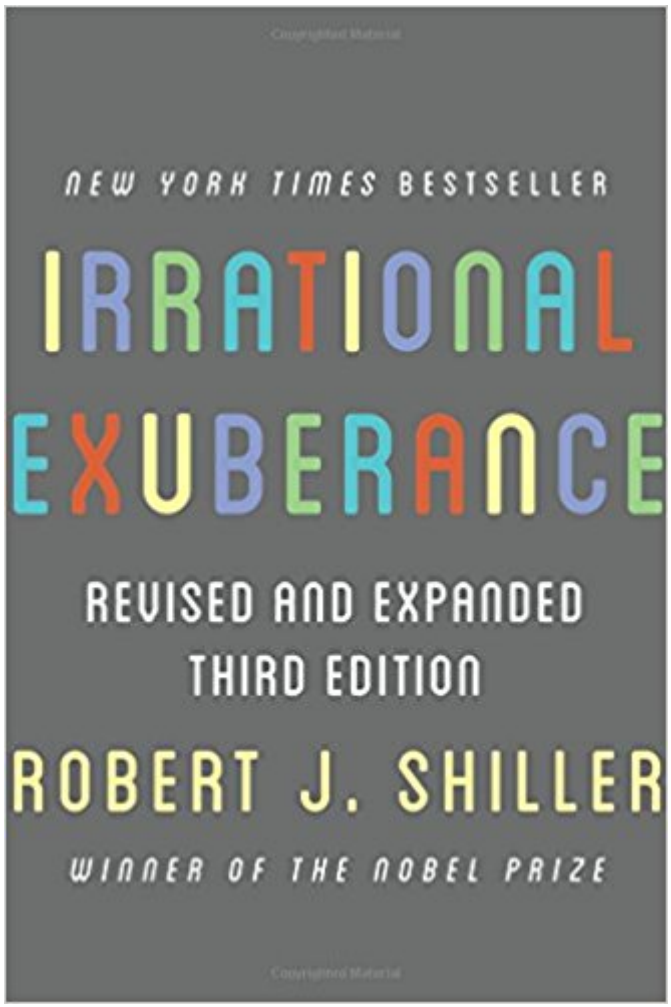
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Irrational Exuberance 3rd Edition



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Synopsis

In this revised, updated, and expanded edition of his New York Times bestseller, Nobel PrizeÃ¢â ¬â œwinning economist Robert Shiller, who warned of both the tech and housing bubbles, cautions that signs of irrational exuberance among investors have only increased since the 2008Ã¢â ¬â œ9 financial crisis. With high stock and bond prices and the rising cost of housing, the post-subprime boom may well turn out to be another illustration of Shiller's influential argument that psychologically driven volatility is an inherent characteristic of all asset markets. In other words, Irrational Exuberance is as relevant as ever. Previous editions covered the stock and housing marketsÃ¢â ¬â ¢and famously predicted their crashes. This edition expands its coverage to include the bond market, so that the book now addresses all of the major investment markets. It also includes updated data throughout, as well as Shiller's 2013 Nobel Prize lecture, which places the book in broader context. In addition to diagnosing the causes of asset bubbles, Irrational Exuberance recommends urgent policy changes to lessen their likelihood and severityÃ¢â ¬â ¢and suggests ways that individuals can decrease their risk before the next bubble bursts. No one whose future depends on a retirement account, a house, or other investments can afford not to read this book.

Book Information

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Customer Reviews

Robert J. Shiller, Co-Winner of the 2013 Nobel Prize in EconomicsA New York Times BestsellerWinner of the 2000 Commonfund Prize for the Best Contribution to Endowment Management Research"Robert J. Shiller . . . has done more than any other economist of his

generation to document the less rational aspects of financial markets."--Paul Krugman, New York Times"Irrational Exuberance is not just a prophecy of doom. . . . [I]t is a serious attempt to explain how speculative bubbles come about and how they sustain themselves."--John Cassidy, New Yorker"What set off this speculation and what feeds it? Shiller ranges widely his explanations, laying them out in the first 168 pages in easy-to-read, sometimes passionate prose. . . . [T]hose first 168 pages are must reading for anyone with savings invested in stocks."--Louis Uchitelle, New York Times Book Review"Mr. Shiller's book offers a dose of realism. . . . [I]t presents a message investors would be wise to head: Make sure your portfolio is adequately diversified. Save more and don't count on double-digit gains of the past decades continuing to bail you out during retirement."--Burton G. Malkiel, Wall Street Journal"Informative and well-argued . . . A calm and reasonable antidote to today's euphoria."--Jeff Madrick, New York Review of Books"Although its message may be unwelcome to many, this important book should be read by anyone interested in economics or the stock markets."--Rene M. Stulz, Science"Dazzling, richly textured, provocative . . By far the most important book about the stock market since Jeremy J. Siegel's Stocks for the Long Run."--William Wolman, Business Week"Shiller has provided an accessible guide to the usually impenetrable literature on financial markets, especially the American stock market."--Foreign Affairs"Shiller contends that investor psychology is so given to herd behavior that it's almost impossible to manipulate or even influence. The market can 'go through significant mispricing lasting years or even decades.'"--Robert J. Samuelson, Washington Post"Irrational Exuberance should be compulsory reading for anybody interested in Wall Street or financially exposed to it; at the moment, that would be roughly everybody in the United States."--Economist"[An] excellent new book. . . . If you want to preserve capital, unload most of your stocks and invest in government bonds."--Steve H. Hanke, Forbes"Likely to be the year's most-talked-about finance book. . . . You can agree or disagree with it. But you owe it to yourself to read it if you are investing in equities or contemplating doing so."--Fred Barbash, International Herald Tribune"Irrational Exuberance is likely to cause a stir. . . . Shiller illustrates how the current market is like a naturally occurring Ponzi scheme in which investors become promoters for the game after receiving initial payments with money taken from subsequent investors."--David Henry, USA Today"Irrational Exuberance is not billed as a personal finance book. But it is. You can agree or disagree with it. But you owe it to yourself to read it if you're investing, or contemplating investing, in inequities."--The Washington Post"A must-read . . . Refreshing, well-reasoned . . . And very readable."--Michael P. Niemira, Barron's"So why have share prices soared so high in the past five years, taking market valuations past all historical records? Professor Shiller's answer, as the title indicates, is not encouraging. His

message is: diversify now as much as you can, and batten down the hatches."--Diane Coyle, Independent"Shiller has written a crystal-clear and tough-minded critique."--David Warsh, Boston Globe"The point of Irrational Exuberance is not to help investors dump their houses before the current exuberance fades. It is to deepen our understanding of the events we are watching as one bubble gives birth to another and to encourage readers to think about economic behavior and economic policies that can cushion the nasty side of volatility."--Sharon Reier, The International Herald Tribune"The first edition of this book was widely read because of its timing. This one, too, seems perfectly timed, coming when we're starting to fear we've been fooling ourselves. Again. . . . There's a world of important information for everyone."--Lyn Miller, USA Today"The second edition's new component . . . is Shiller's exploration of how market psychology has responded to the ensuing five years of retrenchment. One chilling conclusion he reaches from his knowledge of past market performance is that the 2005 market may still be correcting and that a return to 2000 levels may be a decade away. He further warns that many investors are still too heavily invested in equities and that proposals to invest Social Security funds in the stock market would subject the retirement system to unacceptable risk. Shiller expands his focus to include the booming real estate market where he sees another speculative bubble building."--Library Journal"There's plenty of new material in this edition. . . . Chief among the new additions is Shiller's deeper focus on recent excesses in the stock market and his skepticism about investing in real estate. . . . . Shiller's ideas have so many devoted followers that I wouldn't be surprised to see many more editions."--Angele McQuade, BetterInvesting"Yale University Professor Robert Shiller pretty much called the stock market drop when this book was first published in 2000. In this fact-packed book, Shiller describes the psychological origins of volatility, among other things. And in the newest edition, Shiller compares the recent housing boom to the stock market bubble of the 1990s."--Registered Rep."[Shiller] fully updates his argument here, adding new material (a chapter on the bond market, his 2013 Nobel lecture) and augmenting the text to reflect developments since the 2005 second edition. He vacuums up all manner of cultural phenomena, from the important (rising income inequality) to the possibly significant (Google Glass) to the trivial (Kim Kardashian), to reinforce his thesis, and he writes expressively, whether explaining arcane economic issues or illustrating how the story behind Mona Lisa's smile helps account for the painting's astonishing market value. A rare example of economic analysis, deeply respected within the discipline, wholly accessible to general readers."--Kirkus"A superb, well-written, well-argued contribution for serious scholars and practitioners, whether they agree with Shiller or not."--Choice"Shiller provides an excellent synthesis of all the evidence contradicting the efficient market hypothesis, especially how a form of irrational

exuberance sometimes leads to price bubbles. . . . Without any doubt, Irrational Exuberance must be read by anyone interested in finance. And it really can be read by anyone interested in finance because the genius of this book is to explain complex phenomena easily, avoiding specialist jargon, including mathematics."--David Le Bris, Journal of Economics

Robert J. Shiller, the recipient of the 2013 Nobel Prize in economics, is a bestselling author, a regular contributor to the Economic View column of the New York Times, and a professor of economics at Yale University. For more information, please go to www.irrationalexuberance.com.

This first edition of this book, in 2000, was a broad study, drawing on a wide range of published research and historical evidence, of the enormous stock market boom that started around 1982 and picked up incredible speed after 1995. The book argued that the boom represented a speculative bubble, not grounded in sensible economic fundamentals. The second edition, in 2005, added an analysis of the real estate bubble as similar to the stock market bubble that preceded it, and warned that "Significant further rises in these markets could lead, eventually, to even more significant declines." Alas, both predictions turned out to be true, as we now all know.Will history repeat itself with this third volume? That is hard to say. In this latest edition, Professor Shiller updates his argument, and augments the text to reflect developments since the 2005 second edition. Of particular interest, he adds an important new chapter on the bond market, which many feel is also in bubble territory. The good news is that, while Professor Shiller says that returns in all asset classes are likely to be subpar for some years given today’s elevated asset prices, the mood is less somber than in previous editions, and there are no warnings of imminent doom, as in previous editions. In particular, he does not see a classic "bubble" in bonds, due to the lack of "exuberance" -- prices for bonds are being bid up reluctantly by investors, he says, which is not the formula for a bubble. However, he certainly balances that somewhat comforting news with a realistic view of the risks that the current situation presents to investors and savers of all types, stocks, bonds, housing, and savings accounts. His main piece of advice to all Americans concerned about their financial future may be the most sensible piece of financial advice ever written: spend less, save more! Yes, we all know that, but when the winner of the 2013 Nobel prize says that, it really means something.I find Professor Shiller’s writing style highly enjoyable, not at all like most economics books. The plain-spoken style is smart, wry, and often witty, and there are almost no mathematical formulas, except in the occasional technical notes in back. The book also talks about a lot of factors that are intrinsically interesting to non-economists. For example, it has chapters devoted cultural factors in

investing; the effects of the news media; "new era" economic thinking; psychological factors; psychological anchors for the market and herd behavior.Professor Shiller ends by offering a lot of good, commonsense advice to both policymakers and investors, large and small. I highly recommend this book to anyone who wants to understand what's behind the current anxiety, turmoil, and hopes, for a brighter financial future for all Americans.

I read this not long after I had read MalkielÃƒÂ¢Ã â ¬Ã â„¢s Ã ƒÂ¢Ã â ¬Ã Å“A Random Walk Down Wall StreetÃƒÂ¢Ã â ¬Ã Â•. Both books came out in new editions this year, and both had been on my long list of books to read in the back of my head.Oddly enough, both books were compelling and believable. The reasons that this is odd is mostly because one would think that they are diametrically opposed. The entire argument of Malkiel is that you canÃƒÂ¢Ã â ¬Ã â„¢t beat the markets consistently, so the best bet is to get into index. This is an acceptance of part of the efficient market hypothesis, where there is no free lunch and arbitrage opportunities disappear and are not predictable.I can be into Shiller too because there is another part of the EMF that says that market prices are the right prices, so the value of the market is the true value of the market. If this is true there should never be any bubbles. You should also never be able to short sell anything unless you had inside information. But alas, the market can stay irrational longer than you can stay liquid. Bubbles do happen, in all markets and everywhere. Shiller got a bit lucky by having the first edition of this book come out at the point where the dot com bubble was right at the top. Those who had gone all in on technology were not as lucky. As Shiller examines. bubbles can and do happen.So how can I reconcile the fact that the EMF is the tool I rely on for investing even though I have full knowledge that bubbles happen and massive dollar amounts are lost in them? I answer by saying that the markets are rational enough. Bubble happen, but it is hard to know when youÃƒÂ¢Ã â ¬Ã â„¢re in them and you canÃƒÂ¢Ã â ¬Ã â„¢t time them. The prominent economist who called the housing bubble beforehand are small in number. If they were calling it, they were dismissed as bearish or too heterodox. Too many people had failed to read their Kindleberger. This time wasnÃƒÂ¢Ã â ¬Ã â„¢t different and the bubble popped. Harder to know is when it will pop and at what level. ThatÃƒÂ¢Ã â ¬Ã â„¢s where the EMF works. When it pops, youÃƒÂ¢Ã â ¬Ã â„¢re going down with it, but so will everyone else. It makes me think of a couple of quotes. First, Keynes: ÃƒÂ¢Ã â ¬Ã Å“Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally,ÃƒÂ¢Ã â ¬Ã Â• and then CitiÃƒÂ¢Ã â ¬Ã â„¢s Chuck Prince approps the last bubble: ÃƒÂ¢Ã â ¬Ã Å“As long as the music is playing, you've got to get up and danceÃƒÂ¢Ã â ¬Ã Â•. Sure, if you were in the main indices you

lost half the value of your investments. Of course if you stayed in them you made them all back. Now imagine if you had put all your money into junior tranches of residential mortgage backed securities -- it seemed like a sure thing, but you would have ended up with nothing.
ItÃƒÂ¢Ã â ¬Ã â„¢s not perfect, but the market is efficient -- enough.

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