

Book Review

The Perils Of Greed, Mysteries Of The Market

Robert Lenzner, 11.05.02, 10:00 AM ET

The beauty of *The Mind of Wall Street, A Legendary Financier on the Perils of Greed and The Mysteries of the Market* (Leon Levy with Eugene Linden, Public Affairs, \$26) is that you can hear how my friend [Leon Levy](#)'s mind works.

That mind has made Levy an exceedingly wealthy man. Like [Warren Buffett](#) and other legendary investors of his generation, the now 77-year-old Levy began "playing" the market at a young age. His first investments were made with the \$200 received as bar mitzvah presents. "I always believed I could make money with money," he says.

Levy rose from being research analyst with a small securities firm to senior partner of **Oppenheimer & Co.**, founder of the Oppenheimer mutual fund empire, and finally founding partner in **Odyssey Partners**, a hugely successful private investment partnership. Today, Forbes ranks Levy the [313th richest American](#), with \$750 million. He advises the Guggenheim Foundation, the Institute for Advanced Studies in Princeton, N.J., and other charitable institutions on their investments.

Unlike other investors, Levy does not pay too much attention to earnings, dividends and the "story" of a stock. Indeed, he urges investors to ignore all recommendations by stock analysts. The underlying reason: big securities firms have an ingrown bias for "overly optimistic forecasts" whatever the true climate for investment.

Better look for out of favor stocks, he advises. Which leads Levy to what really fascinates him: the psychological dynamics of investing. Influenced as a young man by his father Jerome's overweening interest in economics, Levy is a scholar of the intersection between the stock market, economics and the psychological mysteries of investors.

"The collective madness that seized investors in the 1990s provides the persuasive evidence of the rule of psychology in markets," he writes. "After all, this was a period during which even the most sophisticated investors willingly suspended their sense of disbelief and, perhaps even more astonishing, dismissed facts and figures staring them in the face

Anyone who held onto to their formerly high flying technology stocks as they plummeted a sickening 95% over the past couple of years has experienced what Levy calls "status quo" bias--simple inertia stopping people from acting on blindingly clear signals that they should sell or buy. "People typically discount the risks on stocks they own," he says.

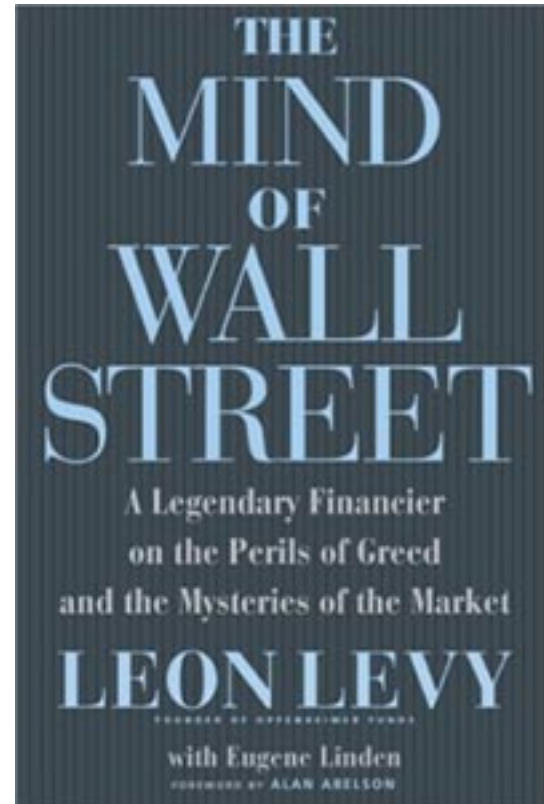
"If you are reluctant to sell, you are typical of American investors, who sell their winners and keep their losers," writes Levy. "Investors do this because the act of selling at a loss is an admission that they were wrong."

"I tend to do the opposite," he says. "I dislike watching my losers week after week, and if I sell them, I get a tax loss to offset capital gains."

Well, up to a point. Few stock market players are as thoughtful and patient as Levy. His wealth lets him bear huge temporary losses that would terrify most mortals. Levy doesn't cut and run at the first setback--if, and I cannot emphasize this too strongly, he believes that he has made what he calls "correct judgments" about the interaction of markets with the economy.

That analysis lets him make big bets on esoteric plays, like euro dollar futures, the most sensitive leveraged device for betting on the direction of interest rates. He takes huge positions in bankrupt railroads and invests in a myriad of hedge funds.

A careful study of "patient schemers" like **J. Paul Getty** and investor **Sy Scheuer** led Levy to emulate their patient accumulation of shares in various oil stocks and **Eastern Gas and Fuel**, a coal company that owned a highly profitable barge line. Here was a powerful market lesson about buying assets in the stock market at large discounts to their true value.



"Deconstructing their plays opened my eyes to the extraordinary discipline, strategic imagination, and perseverance required to unlock and capture the riches hidden in the balance sheets of neglected or undervalued companies," Levy writes.

Time and time again, though, he returns to the economics he learnt from his father, which is why he now remains bearish on U.S. equities. "When the savings rate rises, my father observed, corporate profits fall," he writes. Each 1% rise in savings will cut profits by 11%, he predicts. And savings rates in the U.S. must rise, he argues, because Americans have taken on too much debt.

"As Americans' financial situation collides with reality, the savings rate will rise and profits will fall. Those who think we are in a recovery will be disappointed," he concludes. He's betting, and betting hugely, that the Nasdaq index will fall, perhaps as low as 625. Last year he made a cool \$100 million on this gutsy bet.

Every investor, including Levy, makes mistakes. He bluntly admits his. He was fooled by the charm and bluster of **Enron's** (otc: [ENRNQ](#) - news - people) former chief financial officer, **Andrew Fastow**, into putting money into one of Enron's fated off-balance-sheet investments. Most of his uranium investments in the 1950s did not pay off, though trekking around with geologists through the west was great fun. He's been tied to a mediocre Florida land company, **Avatar**, for decades without any great success.

"As investors, we deceive ourselves a thousand different ways, both large and small," he says. "We attribute gains to acumen when they are the product of luck, and attribute losses to ill fortune when they are often the product of stupidity or inattention." The common problem, underscores Levy, is "We fall in love with a company that is unworthy of our affection."

Here's where the reader-investor gets more than his money's worth from this book. After 64 years of investing Levy insists "There is no system to beat the market. The future is never a simple replay of the past...The market has a life all its own..." Succeeding in it is about making more "correct judgments" than mistakes.