

Definitely not on the same page

Two investing books take divergent paths

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Finance professor and author Zvi Bodie has one thing in common with *Stocks for the Long Run* author Jeremy Siegel. Both are releasing new versions of their popular investing books. But the similarities between them end there.

Bodie, 64, author of *Worry Free Investing*, does not own stocks personally: More than 90% of his portfolio is inflation-indexed bonds because he doesn't believe investors need to take equity risk to meet their financial objectives. Siegel, featured in this column last week, is an advocate of equities, who believes that the long-term returns will overcome any short-term market upheavals.

Siegel's preference for stocks is more palatable to the financial industry, which may be why his book is better known. Published in 2003, *Worry Free Investing* "never really caught on in this country," Bodie says. However, he is about to release a new version in the U.K., which was the first country to create inflation-linked bonds, called "linkers" or "inflation-linked gilts." In 1980, the Thatcher government offered them as alternatives to pension funds wanting to opt out of the U.K.'s social security system. A year later they were made available to retail investors.

Real return bonds, or RRBs, came to Canada in 1994, three years before the United States created Treasury Inflation Protected Securities or TIPS. Bodie recalls this well because he invested some of his own retirement funds in Canadian RRBs and suffered from the currency exchange.

Worry Free Investing came out of an earlier textbook Bodie co-authored, titled, simply, *Investments*. After 20 years, it is in its eighth edition and entrenched in top business schools; it's also used to certify financial planners and actuaries. Together with Alex Kane and Alan Marcus, the textbook focuses on how asset allocation has the most impact on the risk/return dynamics of investment portfolios.

Bodie says he is struck by the gap between what retail investors are told and what his textbook and academic literature say about investing. "My original motivation for writing *Worry Free Investing* was to try and get the truth out there." One of the "big lies" of the prevailing equity culture, according to Bodie, is that there is no such thing as safe investing and that investors must take big risks to get outsized returns.

Before RRBs, this may have been true, but not now, he says.

One certified financial planner who agrees with Bodie's views on RRBs is Graham Cook of Victoria-based Composite Finance Inc. He says if investors hold RRBs to maturity, they "really are as close to risk-free and guaranteed as you can get at this time."

But in the U.S., the financial industry makes it hard for retail investors to buy TIPS, Bodie says. Instead, it propagates the myth that stocks are good inflation hedges. "There's no evidence to support that; in fact it goes the other way," he says.

Three years ago, Siegel and Bodie held a debate on their diametrically opposed views. Bodie conceded that if you really want to bet on stocks, it makes more sense to hold 90% bonds and use call options as a way to profit from stock market growth.

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