

# FINANCIAL ANALYST'S HANDBOOK

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PORTFOLIO MANAGEMENT

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SUMNER N. LEVINE  
EDITOR-IN-CHIEF

# FINANCIAL ANALYST'S HANDBOOK

Methods, Theory, and  
Portfolio Management

*Edited by*

**SUMNER N. LEVINE**

*State University of New York  
Stony Brook, New York*

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**FINANCIAL  
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HANDBOOK**  
**Portfolio Management**

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*This book is dedicated to those  
who are themselves dedicated  
to a systematic and disciplined  
approach to asset management.*

# Preface

**THIS HANDBOOK** is intended as a comprehensive guide to the principles and procedures necessary for successful investment management. Security analysts, portfolio managers, corporate financial officers and other professional investors will find this volume a convenient and authoritative source of information.

The Handbook was originally conceived as a less comprehensive reference. However, the enthusiasm of a singularly capable group of editors and contributors soon overwhelmed the original scenario and the project grew like Topsy. The coverage was increased and a number of contributions turned out to be longer than originally planned. Many of these more extensive sections contained much valuable information not readily found elsewhere. Rather than implore our contributors to cut and prune their sections to accommodate the confines of the original plan, it was decided to expand the book.

Because of the rapidly changing hues of the investment landscape, we expect that this guide will find considerable use by analysts. Such is the tempo of events, that on one occasion the analyst may find it necessary to undertake an in-depth analysis of a special situation, while on another occasion he may seek guidance for a critical evaluation of foreign securities or municipal bonds. Each chapter provides the analyst with the expertise of authorities who have devoted years to their subject.

A few words should be devoted to the organization and some special features. The first sections take cognizance of the growing complexity

of government regulations as they impinge on the profession. Recognition is also given to the increasing importance of the examinations administered by the Institute of Chartered Financial Analysts.

Comprehensive coverage is given to the characteristics and analysis of both long term and short term investment vehicles. Indeed, we have leaned over backward in this regard and have included substantial information on special situations, foreign securities, and even venture capital investments. Who can foresee future investment opportunities?

The sections on the Analysis of Financial Reports contain a number of special features. Because of the frequent need to compute earnings per share, we have included, in full, APB Opinion 15, together with relevant supporting material. Another feature worthy of comment is an up-dated outline of the 10-K form. Study of this 10-K form section will inform the analyst what information is available and where in the 10-K form it can be found.

The sections on Economic Analysis and Timing also contain a number of useful features. A very complete account is given of the Federal Reserve System since, as every analyst is well aware, the securities markets exhibit an almost instantaneous reflex reaction to significant changes in the Fed's policies. Also included is a detailed section on the interpretation of National Income and Balance of Payments Accounts. It should be noted too, that technical analysis has also been given its day in court. A useful appendix to the latter section will provide the user with detailed definitions of the more commonly used market averages.

Quantitative methods are presented at a level which should be accessible to most analysts. In order to enhance the usefulness of these sections, fairly comprehensive tables of the more widely used compound interest functions have been provided.

Considerable space has been given to Portfolio Management and Theories. The field of capital market theory has experienced an explosive development in recent years. As with most new ideas, some of these developments (efficient markets, random walk, and others) have been the subject of considerable controversy. One point seems clear, however, it is not enough for analysts to evaluate a company, an industry and even future economic trends, as important as these matters may be. He must also attempt to determine whether the market has already discounted his prognostications; for what one analyst knows, so may others. In any case, a broad spectrum of views concerning portfolio management has also been provided, including a section which gives a very comprehensive and objective assessment of current opinions.

Financial executives of business enterprises should find this book an aid to making the right decisions. It can provide guidelines to selecting the right instruments for financing continued growth. It also pro-



vides information that can be used to evaluate investment bankers and pension fund managers.

Security analysis and the management of investments is surely one of the more exciting and, we hasten to add, precarious professions. Perhaps it may be likened to cardiac surgery; a vital and necessary business involving substantial survival risks. We hope that the information provided in these volumes will help the user reduce his risk and increase his returns—more we cannot wish fellow analysts.

*January 1975*

SUMNER N. LEVINE

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