REVIEW OF *AUSTRIAN SCHOOL FOR INVESTORS: AUSTRIAN INVESTING BETWEEN INFLATION AND DEFLATION* (2016, publisher: Mises.at)

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Rahim Taghizadeghan, Ronald Stöferle, Mark Valek and Heinz Blasnik in *Austrian School for Investors: Austrian Investing between Inflation and Deflation* contribute to the growing field of Austrian finance and investing. In Spain, Francisco García Paramés has brought the connection between a solid Austrian theory and investment success to attention with his book *Investing for the Long Term*.

The great danger of writing an Austrian investment book is to offer a simple and superficial investment guide. Yet, *Austrian School for Investors* is a thoroughly theoretical book, very much grounded in systematic studies of Rothbard, Mises, Hülsmann and Huerta de Soto. Beside the Austrian economists, Antal Fekete is also an author that has influenced the book. The literature employed is vast. Many authors that are normally, if at all, treated in classes on the history of economic thought, can be found in the references and have inspired the book´s arguments. Thus, the reader learns a lot on the history of economic thought in relation to money, finance and investing. For instance, there is the famous example of fishers that fish with their bare hands. When some fishers build nets and other people use these nets for fishing the economy becomes much more productive. We learn that this example stems originally from the German economist Wilhelm Roscher to whom Carl Menger dedicated his *Principles of Economics*.

The objective of the book is to analyze today's asset price markets from an Austrian perspective. While the English edition of the book was published in 2016 (the German one is from 2014), the analysis is still valid today, since the general panorama has not changed since 2014. Besides the analysis of asset price markets the

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book has another, more ambitious aim, which is the development of an Austrian philosophy of investing.

The book starts with a profound introduction to the Austrian school. Indeed, the book could be read as an introduction to Austrian economics plus an Austrian guide for investment. The authors discuss subjectivism and how one should not confuse value and prices. They point out that the reason for investing is to convert income into wealth and later reconvert that wealth into income. Next, the book discusses liquidity following Antal Fekete and the idea that marketability implies a low bid-ask spread. An explanation of marginalism, individualism and realism rounds up the introductory part.

Next, the book explains the problems of our monetary system. The mainstream analysis of the monetary system is biased. The authors note that while the biggest employer for economists had been the Soviet Union, today it is central banks. There has been a "monetary revolution" in the 19th century with the extension of fractional reserve banking and central banking. The result is a welfare illusion, i.e. an overestimation of one´s own and the economy´s wealth. Production is not directed to consumer wants and a pyramid of debt has been erected. The authors argue that this welfare illusion only could have lasted for so long due to the growth of China and India and the fall of the Soviet Union.

In the following, the authors discuss capital consumption, the consumerist and hedonistic society, moral degeneration, the destruction of the environment and the growth of cities that are the result of the "monetary revolution" that began two centuries ago. They even provocatively ask if the emancipation of women might not be the consequence of the monetary revolution and the fact that often one salary is not enough to maintain a family due to capital consumption. The book is full of such interesting arguments.

Next, we come to a crucial point and a certain tension for Austrian investing. From the Austrian point of view it is not the task of the economist to make predictions, however, based on Austrian theory, Austrian economists have made important predictions. The authors refer to Felix Somary and his famous predictions concerning World War I, Mises and Hayek on the Great Depression, Rothbard and Hazlitt on the end of the Bretton Woods system and gold, Sean Corrigan, Mark Thornton and others on the housing bubble. Thus, the knowledge of Austrian economics does not make one a good predictor of asset prices, because there is always uncertainty about the future. There is always the problem of timing. However, with the help of the correct theory, the probability of being correct in ones predictions increases.

The authors also explain the political connections that have been helpful in the case of Warren Buffett to create and maintain his wealth, as the government has bailed out companies owned by him several times.

In the next chapter, the authors explain what money is, and argue that it could have arisen from exchange or as a store of value. They point out that real interest rates have fallen since the end of Bretton Woods, which brings them to their next chapter, which is key for their analysis of asset prices.

The authors like to use the metaphor of "monetary tectonics" to describe the post financial crisis situation. One tectonic plate is inflationary as central banks have increased the monetary base, brought about negative interest rates and engaged in quantitative easing. The other tectonic plate is deflationary as banks have reduced their balances sheets (at least in the first years following the Great Recession), there has been credit contraction, bail-ins and Basil III regulations. So we have both inflationary and deflationary forces that have compensated each other more or less in the years after the financial crisis. The question is which tectonic plate will win in the end.

After the discussion of monetary tectonics, the book provides an excellent introduction to capital theory and Austrian Business Cycle theory, mentioning Cantillon effects and Mark Thornton´s sky scraper index. With these building blocks the authors present possible future scenarios including hyperinflation, hyperdeflation, stagflation, financial repression and wealth taxes, as well as the possibility of the use of special drawing rights as a new world currency.

The most innovative chapter from a theoretical perspective is the chapter that develops an Austrian investment philosophy. It defends the morality of saving against today´s excessive consumption caused by the high time preference rates, where the only motivation for action is fun. Moreover, it defends the ethics of interest rates and portrays the problems of debts. Debtors implicitly become supporters of the monetary revolution and inflationary policy. As debtors, they become slaves of their work place.

Therefore, the first pillar of the Austrian investment philosophy is to pay back debts. The next pillar is to provide for sufficient liquidity through hoarding. The authors claim that reserves should total at least the expenditures of one year. Once debts are paid back and reserves build, the next step in the Austrian investment philosophy is capital formation. Only after this, consumption comes in. Consumption should be sustainable, long-term, and qualitative consumption. This kind of consumption, in fact, is close to investment. The next pillar forms endowments or donations, which are defined as investments that create and foster sustainable structures in society. As a last pillar, there is speculation.

The philosophical portfolio proposed in the book is the following: 30% liquidity, 30% capital investments (stocks, machines, real estate), 30% long-term consumption (one's own house, art, high quality consumption goods), 10% endowments (participation in companies that do good work).

The last chapter deals with an Austrian investment practice. After pointing out that Austrians tend to have a bearish bias, the book provides some general and useful investment advice, ranging from websites for screening of stocks, information sources to brokerages, etc.

In the next step, the authors propose a permanent portfolio as a possible translation of the philosophical portfolio: 25% in gold, 25% in cash, 25% in stocks, 25% in bonds. This portfolio should be adjusted from time to time to readjust the weighting and exploit the effect of mean reversion. For instance, if stocks rise quickly in price leading to a weight of 40% in the portfolio, stocks should be sold and the other positions increased.

Finally, the authors analyze several investment options specifically. Interestingly, they point out that gold tends to increase not only in a price inflation but also in a price deflation, when it is remonetized and offers trust and security. A bad scenario for gold is disinflation. As the authors expect financial repression and negative real interest rates they are bullish for gold. They also argue that silver tends to rise faster than gold and fall faster than gold. In the area of stocks, the authors present the value investing approach and especially favor family companies. They explain the relevance of Tobin's Q, the yield curve, and technical analysis for investing. The authors also analyze from a theoretical perspective other investment options such as corporate bonds, government bonds, ETFs, and alternative investments including hedge funds, that due to low interest rates can indebt themselves and foster speculation, options and micro credits.

In sum, *Austrian School for Investors* is a theoretical book that provides valuable insights for investors. Investors learn the theory necessary to understand the world of investing and the basis to be successful. The most innovative contribution of the book is the Austrian philosophy of investing.