



Irrational Exuberance

By Robert J. Shiller

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In this bold and potentially urgent volume, Robert J. Shiller, a respected expert on market volatility, offers an unconventional interpretation of recent U.S. stock market highs and shows that Alan Greenspan's term "irrational exuberance" is a good description of the mood behind the market. He warns that poorer performance may be in the offing and tells us how we--as a country and individually--can respond.

Shiller credits an unprecedented confluence of events with driving stocks to uncharted heights. He analyzes the structural and psychological factors that explain why the Dow Jones Industrial Average tripled between 1994 and 1999, a level of growth not reflected in any other sector of the economy. In contrast to many analysts, Shiller stresses circumstances that alter investors' perceptions of the market. These include the entry of the Internet into American homes, the misimpression that the aging of the baby-boom generation builds long-term protection into the market, and herd behavior, such as day-trading. He also examines cultural factors, including sports-style media coverage of the Dow's ups and downs and "new era" thinking about the economy. He considers--and challenges--efforts to rationalize exuberance that are based on either efficient-markets theory, narrowly construed, or the claim that investors have only recently learned the true value of the market.

In the most controversial portion of the book, Shiller cautions that a market that is overvalued by historical standards is inherently precarious. Among his prescriptions is an urgent plea to immediately end what he argues are perilous schemes to privatize social security in favor of plans to reform it. He also argues that private pension plans that encourage many people to put their entire retirement funds in the stock market should be modified. And he calls on our savings and investment institutions to take more sensible account of emerging risk-management principles. Shiller's analysis is convincingly documented, and--regardless of the market's future behavior--his book will stand as an important elaboration of why stocks soared and what our investment alternatives are.

Irrational Exuberance is a must-read for pension-plan sponsors and endowment managers in the United States and abroad. It will also be studied by investment advisers, policy makers, and anyone from Wall Street to Main Street who doesn't want to be caught sitting on the speculative bubble if (or when) it bursts.

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Editorial Review

Amazon.com Review

CNBC, day trading, the Motley Fool, Silicon Investor--not since the 1920s has there been such an intense fascination with the U.S. stock market. For an increasing number of Americans, logging on to Yahoo! Finance is a habit more precious than that morning cup of joe (as thousands of SBUX and YHOO shareholders know too well). Yet while the market continues to go higher, many of us can't get Alan Greenspan's famous line out of our heads. In *Irrational Exuberance*, Yale economics professor Robert J. Shiller examines this public fascination with stocks and sees a combination of factors that have driven stocks higher, including the rise of the Internet, 401(k) plans, increased coverage by the popular media of financial news, overly optimistic cheerleading by analysts and other pundits, the decline of inflation, and the rise of the mutual fund industry. He writes: "Perceived long-term risk is down.... Emotions and heightened attention to the market create a desire to get into the game. Such is irrational exuberance today in the United States."

By history's yardstick, Shiller believes this market is grossly overvalued, and the factors that have conspired to create and amplify this event--the baby-boom effect, the public infatuation with the Internet, and media interest--will most certainly abate. He fears that too many individuals and institutions have come to view stocks as their only investment vehicle, and that investors should consider looking beyond stocks as a way to diversify and hedge against the inevitable downturn. This is a serious and well-researched book that should read like a Stephen King novel to anyone who has staked his or her future on the market's continued success.

--Harry C. Edwards

From Library Journal

Taking his book's title and thesis from Alan Greenspan's 1996 description of investors, Shiller (economics, Yale Univ.) studies the current booming U.S. stock market in historical terms. His research into past U.S. and international markets indicates that during every speculative bubble there was always widespread consensus that high valuations were justified by each market's special circumstances. Every large market correction seemed to result from popular consensus rather than specific events or news. Shiller says that past bull and bear markets, though often based initially on sound fundamental reasoning, fed upon themselves to go beyond what the facts justified. He challenges the efficient market theory, demonstrating that markets cannot be explained historically by the movement of company earnings or dividends. He concludes that the current U.S. stock market is a speculative bubble awaiting correction. While the book certainly belongs in all academic business collections, public libraries should also purchase it as a counterweight to the plethora of get-rich-quick investment guides.

--Lawrence R. Maxted, Gannon Univ., Erie, PA

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From [The New Yorker](#)

During the past decade, he has emerged as a leader in the new field of "behavioral finance" which seeks to apply lessons learned from other academic disciplines, particularly psychology to economics. *Irrational Exuberance* is not just a prophecy of doom. Encompassing history, sociology, and biology, as well as psychology and economics, it is a serious attempt to explain how speculative bubbles come about and how they sustain themselves.

Users Review

From reader reviews:

Rosalie Dietrich:

Playing with family in a park, coming to see the coastal world or hanging out with buddies is thing that usually you have done when you have spare time, and then why you don't try point that really opposite from that. Just one activity that make you not sense tired but still relaxing, trilling like on roller coaster you already been ride on and with addition of information. Even you love Irrational Exuberance, you could enjoy both. It is good combination right, you still would like to miss it? What kind of hang-out type is it? Oh can occur its mind hangout people. What? Still don't get it, oh come on its identified as reading friends.

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