

Going Into Wall Street

I am frequently asked about the best background for the investment business. To start with, I am quite sure what it *isn't*: majoring in economics, and then entering Wall Street. That's like recommending that an aspiring author should go straight from college into writing, or that a future saint should study theology and then enter church administration, or that a budding Casanova should start with a doctorate in anatomy. In all these matters one needs first to know the world and have practical experience. You invest in specific human operations—manufacturing, retailing, banking, technology—a different affair from building theories out of figures.

And economics, like weather prediction at the turn of the century, is still a proto-science. It may become a real one but does not yet meet an important test of a science, namely, that it can be used as a predictive tool. Basic questions still mystify the experts. Nobody predicted the huge boom of the Reagan years, when industry grew by an amount equal to West Germany's entire economy and the stock market tripled. Nobody seems

to be able to predict the price of gold, or what a higher yen will do to our trade with Japan. Most of our basic economic statistics are misleading, including unemployment, poverty, homelessness, and the federal deficit. George Soros, today's greatest investor, was trained as an economist but decided that classical economics can't explain the stock market. Warren Buffett, another great, not only avoids economic formulas but says he does not even use a calculator. He examines *companies*, beginning with the people and the impregnability of the firm's niche or "business franchise." When I asked Peter Lynch, who ranks with either of them, how much time he spends on economics, he replied, after some reflection, "A little less than fifteen minutes a year." So economics is not a particularly useful background for Wall Street.

Investment success requires above all a knowledge of business, which must include the ability to read and interpret figures, the language of business; a feeling for how people function; and a wide and deep judgment of affairs in general. It is almost indispensable to have some personal experience of business operations, which is what investment is about; a share of stock makes you a small partner in some enterprise. Ideally, you should have worked near a company's decision-making level, but at least you should have spent time out in the operating world. A few years with a manage-

ment consulting firm is an admirable background, since you are plunged into a variety of different activities. Above all, since most things don't work, you learn how matters go awry. (They probably wouldn't call in a consultant if there weren't problems.) So you see a lot quickly, as with battlefield medicine. (I provide a cheerful compendium of follies in my book *Famous Financial Fiascos*.)

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cos, a couple of which appeared in *Harvard Magazine*.) I would rather hire a candidate with four years' experience at McKinsey or Arthur D. Little than on with a Ph.D. in economics. *Much* rather. How about business school, then? Probably helpful in business, particularly after a few years' experience outside, but the consensus in my set is that it is not a particularly efficient step in a career on Wall Street.

As to gaining a broad judgment of affairs, I share with Benjamin Graham, who founded the profession of security analysis, an enthusiasm for the Greek and Roman classics as a source of general wisdom. A 1990 survey of British business recruitment officers found that studying the classics developed "intellectual rigour, communications skills, analytical skills, the ability to handle complex information and above all, a breadth of view which few other disciplines can provide." Working word by word through the original texts sharpens the mind. You can't fudge it, the way you now can in many liberal arts studies. You are forced to submit to the material, which is also intrinsically enlightening. Thucydides may or may not be a great historian by modern standards, but if you master those fascinating pages you will understand better than most people how the great world, including NATO, functions. And Book VIII of Plato's *Republic* provides indispensable



sights into how oligarchy moves on to democracy and then, via breakdown, to tyranny; things haven't changed that much.

It is extraordinary how much rubbish is put about on investing, just as on politics, religion, and medicine. People want desperately to believe that there are shortcuts and easy solutions. In all these areas a substantial cadre of pundits has a keen vested interest in alarming you and persuading you to hire them to put things right. Ecological perils, political perils, moral perils, medical perils. . . . It would be hard to sell newspapers whose pages reflected the reality, which is that things really change very little, being neither as desperate nor as promising as they may appear from day to day. The best way to get a feeling for all this is immersion in history, including intellectual and social history.

The thoughts on life of notable men are indispensable: Franklin, Sun-tsu, Montaigne. Napoleon, whose reflections on statecraft should be studied with care, observed that the worst formation for politicians is politics; they should begin with much broader studies, or they will be of little value. Much the same holds for investment strategy, which is really a form of futurology. You need to recognize the patterns behind the changes in the world and be able to evaluate with a cool and critical eye the enthusiasms then sweeping the investing community. There will be ample time to learn the details of the investment craft later, after you have the broader grounding in place. It rarely works the other way around. (For that matter, Book IX of the *Republic* urges that you learn about business *after* studying liberal arts.)

So much for the preparation. What about where you go to work? Children of my friends or clients come by to ask whether, for instance, they should seek a job at Goldman Sachs or Morgan Guaranty. I always tell them that they should first determine whether they belong in the financial world at all.

People think in different ways: Some are thing-manipulators, some are idea-manipulators, some are leaders—people-manipulators—and so on. If you

come from Cleveland, a manufacturing center, you tend to become a thing-manipulator; you're almost born at home with machine tools and jigs and dies. In Washington it comes naturally to be a people-manipulator—to work in government. In New York, on the contrary, a young person is likely to go into idea-manipulating. This again splits into two main subcategories: literate people—who are attracted to advertising, law, journalism, and so forth—and numerate people, who will be happy in banking and finance.

So it is anything but clear that young New Yorkers should necessarily follow the well-traveled path into the financial world or the law. They think that way because they grew up there, but their true talent may be elsewhere.

For an insight as to someone's bent, I look at extracurricular activities. If the young person was editor of a college literary magazine, he or she will probably not be numerate enough for success in accounting, although of course it's possible. If they were head of the student council, it tells you something. So to get an impartial idea of your aptitudes, try the Johnson O'Connor Research Foundation, which puts you through a series of tests. They may well only confirm what you and your family already suspect, but even that helps. It is valuable, for instance, to establish more or less for sure that you're in the top rank of Americans in verbal aptitude but in the bottom third of arithmeticians—or vice versa.

You might as well capitalize on your strength. Only a very small part of the population can expect to be really successful in Wall Street, and it's better to get an idea of your prospects before you start, rather than learning it the hard way, by getting fired eight years along in your career, during a market contraction. So even more important than what your educational background and early experience should be to enter the investment field is the perennial injunction: Know Thyself. □

John Train '50, A.M. '51, founded Train, Smith Investment Counsel in New York City. His books include 'The New Money Masters and Most Remarkable Occurrences.

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