The Alchemy of Finance: Reading the Mind of the Market

George Soros (1987)

Why Read It?

- Gives insight into Soros's investment strategies, and the decision-making processes of the most successful money manager of our time.
- Depicts how he ran the hugely successful Quantum Fund in the mid-1980s, giving examples of his approach and lessons in how to make money in times of uncertainty.
- He recommends his technique of being adaptive and flexible, as there is no way of knowing how any market situation will turn out.

Getting Started

The Alchemy of Finance analyzes current financial trends, and presents a new paradigm by which to understand the financial market today. It details Soros's innovative investment practices that have made him into a billionaire, along with his views of international finance and the global economy. It is quite philosophical in outlook, and technical in his examination of the connection between thought and reality, and how they apply to the financial markets.

Author

George Soros (b. 1930) is President of Soros Fund Management and Co-Founder and Chief Investment Advisor to the Quantum Fund. A billionaire investor, philanthropist, and author, he is also active in education, culture, and economic aid and development through his Open Society Fund and the Soros Foundation.

Quotations

"*I seek to lay the groundwork for a new paradigm that is applicable not only to financial markets but to all social phenomena.*"

"*Financial markets are always wrong in the sense that they operate with a prevailing bias.*"

"*Equilibrium itself has rarely been observed in real life—market prices have a notorious habit of fluctuating.*"

Context

- Provides an in-depth discussion of Soros's "theory of reflexivity," explaining its key analytical principles in the context of boom–bust cycles in financial markets and economies, and its applications in his successful trading system.
- The basic premise of reflexivity is events create expectations that influence the financial markets; the markets, in turn, then influence these events, creating a cycle.
- Offers a unique contrarian insight into our understanding of supposedly obvious economic and financial ideas, such as his denial of the efficient markets hypothesis and financial markets equilibria.
- Argues that the market is a useful early warning system for potential economic catastrophes, as they reflect the fears of investors.
- Proposes a human uncertainty principle that suggests our understanding is often incoherent and always incomplete, inspired by Heisenberg's rule about quantum particles.

Impact

- He became famous for making a billion dollars in one day by shorting the British pound against the US dollar and other currencies, and this book provides important business and investing lessons.
- Examines his technique of buying during the upturns and taking the profit, waiting for a while, then sell shorts during the downward cycle.
- Discusses how Soros trades in the currencies and commodities markets, simplifying his model into eight variables.

More Info

Books:

- Cunningham, L. A. (ed). *The Essays of Warren Buffett: Lessons for Investors and Managers*. New York: Cardozo Law Review, 1997. A compilation of the writing and thinking of the great investor.
- Soros, George. *Soros on Soros: Staying Ahead of the Curve*. New York: Wiley, 1995. Produced in an interview format, revealing his views on investing, global finance, and world affairs.

See Also

Thinkers

- George Soros

Finance Library

- The Intelligent Investor

Information Sources

- Investment

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