

Model users should also have a thorough understanding of the assumptions being made with models and to what extent they hold in practice. Otherwise, there could be a misguided sense of confidence in the model resulting in an inaccurate estimate of risk exposure. Triana clearly shows that high risk events happen more often than the normality assumption would imply; as a result, VaR, which assumes normality, underestimates risk. Individuals took VaR as truth leading them to believe their risk was lower than it was in reality and consequently, they took on more risk than desired. They did not evaluate the validity of the model's assumptions and the impact that it might have on the resulting risk measure. Triana blames the models and their creators solely for this problem, but it is not clear they should bear the blame alone. Financial economists should have been clear about how their models should be interpreted and should have shouted more loudly when the models were being misused. And, users of financial models should have done a better job at understanding the intuition behind a model, the validity of the model's assumptions and the impact those assumptions have on the model's implications.

Triana's reasoning that common sense should rule is that one can never perfectly measure risk so we should not attempt to measure it at all. If a model's assumptions do not hold in practice then the model is pointless, and continuing to implement such a model can only be detrimental. The drawbacks to financial models which Triana brings to light are valid. Does that really mean all models should be thrown out the window? Can markets run efficiently with everyone operating on common sense alone without any risk measure?

There are some practical dilemmas with this suggestion. For instance, how will markets be regulated? Regulators need to have some measure of risk so they can monitor the risk-taking of financial institutions. Without a risk measure, how do they effectively oversee institutions so as to protect investors? Are regulators to trust that institutions are operating on 'common sense'? Given the regulatory arbitrage that the recent crisis revealed, it seems hard to believe that this would be the case.

Furthermore what are the implications for related fields if we no longer measure risk? Not measuring risk implies we stop attempting to estimate the probability of extreme events which would lead to a breakdown in the catastrophic insurance market. Similarly, the author's thoughts imply that we should not try to model human mortality. What would the impact be in the life insurance, annuity, and pension market then? Would these changes *really* improve society?

*Lecturing Birds* offers a detailed analysis of financial models and their impact during the recent financial crisis, but I caution readers that the book is very one-sided. It clearly portrays the drawbacks associated with financial models, and the analysis on this part is very insightful. On the other hand, there is no indication of the positive externalities that financial models have created. Financial models have increased investor confidence which most likely improved market participation and efficiency overall. Developments in assessing risk have also led to innovations in other fields. These points are never relayed in the book. Triana's solution to the negative externalities created by financial models is to not develop them. Yet, there are negative externalities associated with not creating models as well. Triana effectively provides a controversial critique of financial models, but we need to analyze both their costs *and* benefits before we decide to embark upon a world without them.

JACQUELINE M. VOLKMAN WISE  
Fordham University

*Retirement Portfolios: Theory, Construction and Management.* Michael J. Zwecher. John Wiley and Sons, 2010, ISBN 978-0-470-55681-8, 281 pages.  
doi:10.1017/S1474747211000163

*The bottom line: a very practical and well argued philosophy for retirement funding that will make sense to practitioners.*

Mr Zwecher has developed a soundly based and practical philosophy for funding of retirement benefits, and produced a book that would be highly suitable as a text book for a course in applied financial planning. It could also be useful to retirees or near retirees that have some knowledge of financial terms.

The book moves slowly through the process, and for a quick read to understand the philosophy, it becomes repetitive and drawn out, but as a text book for students with little knowledge of financial planning, especially the retirement phase, the pace may well be appropriate. I think 'Theory' should have been left out of the title of the book, as it is difficult to find the theory, other than a few references to the Capital Asset Pricing Model (CAPM) that seem to have been inserted to give the book some artificial link to finance theory, which in my view is unnecessary.

The book progresses from an introduction indicating that 'balanced portfolios' may not be suitable for the retirement phase, and moves on to justify this by introducing the concept of risk, and delineating between upside and downside risk, which links very nicely to the later chapters on how much risk can be taken into a retirement portfolio.

Very quickly, Mr Zwecher moves to his main philosophy then which relates to the need to manage downside risk, and introduces the concept of 'lifestyle flooring'. This concept should be easy to appreciate and is presented in a manner that makes common sense without the need for some theoretical justification. Having introduced the need for downside risk analysis, the book then considers the role of annuitisation within the 'lifestyle flooring' concept, and relates the role of annuities to the ability to fund longevity risk.

The introduction of taxation limits the value of the book but this section can be easily ignored by students and practitioners outside the UK tax regime without losing anything significant from the philosophy.

The remainder of the book deals in significant detail with some practical examples and issues, and introduces discussion on how to manage 'excess assets' over that necessary to secure the lifestyle flooring. Mr Zwecher includes a lot of material on how a practitioner could use the philosophy, and how to best introduce this to clients, which may well be of interest to practitioners, but is probably of little interest to students.

Whilst I am of the view there is material of interest to students in the book, overall it seems to be more useful for practitioners who are in the business of retirement planning, and provides an almost complete guide to why the philosophy should be followed, how to 'sell' it to the client, and how to go about working out what to do for each client, including how to manage client expectations.

JOHN EVANS

*Australian School of Business, University of New South Wales*

*Are You a Stock or a Bond? Create Your Own Pension Plan for a Secure Financial Future.* Moshe A. Milevsky. Financial Times Press, 2009, ISBN 978-0-13-712737-5, 240 pages. doi:10.1017/S1474747211000175

In this book, respected finance academic Milevsky turns his hand to the task of giving the person in the street the benefits of academic research into individual financial planning from the last few decades. Motivated by the rapid demise of private sector defined benefit pension funds, he aims to answer the concerns of people who now find themselves having to bear the risks previously borne by such financial vehicles: the investment risk, the mortality risk, the inflation risk and the longevity risk. These individuals need to have the tools to manage both the accumulation phase (pre-retirement) and the decumulation phase (post-retirement) of their investments. The real gem of Milevsky's book is its treatment of the latter. I can't think of another book with such an intelligent treatment of the decumulation phase.