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- 1. Wizards of Value  
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Two writers concerned with public policy on finance contributed greatly to the ongoing debate about the value of money and common stocks. The first was L. Frank Baum, a name that is not well known in finance, and John Burr Williams, a name that is not well known beyond certain stock market analysts and investors. In a sense, Baum and Williams were the original intellectual and practical "wizards" of value due to their insights and authoritative expertise. Baum provided timeless intellectual arguments for a strong currency in terms of purchasing power and against politically motivated debasing of the currency. Similarly, Williams created a timeless methodology for reasonable valuation of common stocks and against irrational pricing in the stock market. L. Frank Baum wrote fourteen books about a mythical land. One is a classic entitled *The Wizard of Oz*, published in 1900. Although hailed as the first original American (U.S.) fairy tale, this imaginative story is not generally recognized as a parable rich with symbolism.

John Burr Williams wrote six books, two of which were published. The most important is the classic theory and practice of common stock valuation entitled *The Theory of Investment Value*, his doctoral dissertation at Harvard University, originally published in 1938 by the Harvard University Press. The second published book, *International Trade Under Flexible Exchange Rates*, 1954, North-Holland Publishing Company, argued that fixed rates were a highly artificial special case of floating rates that was sure to lead to trouble in the end.

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## 2. L. Frank Baum

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The untold story of L. Frank Baum is the meaning of his classic parable. That story is summarized in an article by David Schoenbrod entitled "The Yellow Brick Beltway" in *The Wall Street Journal* (editorial page, Section A, 1999 or

The most indirect, subtle, corrosive, invidious form of taxation is monetary inflation. Price-level inflation and the corresponding monetary devaluation in the countries where they invest is the single greatest risk to long-term investors. Historically, the most effective way for individuals to build real wealth that increases the purchasing power of their money is by investing in common stocks for the long run.

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### 3. John Burr Williams

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In the last paragraph of a memoir entitled *Fifty Years of Investment Analysis*, 1979, Financial Analysts Research Foundation, out-of-print, John Burr Williams writes: "I believe that the investment analyst needs to understand all these things. Clients must not get hurt by a disaster like the Great Depression of years ago or by the relentless inflation of the present. Not only should they be able to pick good stocks to buy, and know when to sell, but also they should understand the great economic problems of the day. In short, they need to be first-rate economists if they hope to be top-flight security analysts."

In *The Theory of Investment Value*, Preface, page ix, Williams says: "That investment analysis until now has been altogether unequal to the demands put upon it should be clear from the tremendous fluctuations in stock prices that have occurred in recent years. As will be shown in the "Post Mortems" in Book II, proper canons of evaluation, generally accepted as authoritative, should have helped to check these price swings somewhat, and thereby reduce in some degree the violence of the business cycle, to the benefit of all the world."

He continues this topic on page 191: "Stock prices, in fact, have moved more violently than almost anything else in the business cycle. Is not one cause of the past volatility of stocks the lack of a sound Theory of Investment Value? Since this volatility of stocks helps in turn to make the business cycle itself more severe, may not advances in Investment Analysis prove a real help in reducing the damage done by the cycle?"

See [www.numeraire.com/books0.htm#Williams](http://www.numeraire.com/books0.htm#Williams) for the listing of this book and a further description.

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