THE DEVIL’S
FINANCIAL
DICTIONARY
INTRODUCTION

Much more than money was lost during the financial crisis of 2008. Between June 30, 2007, and December 31, 2008, the net worth of American households fell by $12.9 trillion, according to the Federal Reserve, and investors around the world suffered similarly drastic losses. But something far more important was stripped from investors: They lost their illusions. Probably the most important illusion they lost was the notion that the financial world is just.

Belief in a just world, as theorized decades ago by the social psychologist Melvin Lerner, is the simple intuition that, in the long run and for the most part, people get what they deserve. Good things should happen to good people and bad things to bad people.
Belief that the world is just is a prerequisite for maintaining the social contract that holds societies together. We restrain our impulses and defer short-term gratification only because we are confident that virtue will be rewarded in the long term.

To some extent, of course, that is mistaken. Belief in a just world is one of several “positive illusions” identified by psychologists. These false intuitions enhance our self-esteem and keep us resilient in the face of misfortune. By chronically exaggerating our odds of success, overestimating how much we control our own destiny, underestimating the power of luck in our lives, and imagining the world to be more just than it is, most of us can face the challenges of life without giving up in despair. Research has shown that the clinically depressed are much more accurate than others at estimating the odds of success. If we confronted reality more honestly, many of us undoubtedly would be unable to do much more than curl up in a ball in the dark, too discouraged to try doing battle at long odds against destiny.

So, although we all know that good things often happen to bad people and bad things to good people, we generally act as if the world were just.

When Internet stocks imploded between 2000 to 2002, investors had no one to blame but themselves: The world’s wisest financial minds had all warned that it was impossible to get rich in a few weeks by trading stocks
you knew nothing about, based on technologies you couldn’t understand, while sitting at home in your pajamas. And investors knew that. Instead, they told themselves, Everybody else is doing it, so I’ll do it to and just get out right before the music stops. When the music stopped before they had time to get out, and investors were left holding stocks that lost 90% or more in a few months, they kicked themselves: How could I have been so stupid?

By primarily blaming themselves for their losses, investors were able to preserve their belief that the financial world was just. The system hadn’t failed them; they had failed the system, by trying to play by the wrong set of rules.

But in 2008, many individual investors didn’t do anything reckless; having learned the lessons of 2000 to 2002, they had become cost-conscious, patient, and prudent. They followed the investing wisdom of the ages, instead of trying to flout it.

And still they lost trillions of dollars—largely because the world’s biggest banks, brokerages, and other financial companies gorged on reckless risks. Like Mr. Creosote, the character in Monty Python’s The Meaning of Life who eats plates piled high with food until he explodes, Wall Street refused to acknowledge that enough was enough. Stuffing themselves and their clients full of dodgy mortgages at bogus prices with shoddy assertions of safety, financial behemoths around the world toppled when housing prices fell.
Meanwhile, many financial executives whose irresponsible policies and slipshod oversight contributed to the collapse nevertheless earned—and kept—billions of dollars in bonuses, stock options, and other forms of incentive compensation. Many of them continue to live in baronial splendor, apparently unscathed by even the pangs of guilty conscience.

So, while bad things happened to good people, good things happened to bad people. Now, instead of blaming themselves for flouting the system, investors blame the system for betraying them.

This book, then, is a survival guide to a financial world that almost no one perceives any longer as being just.

As a financial journalist since 1987, I don’t believe that Wall Street is evil. The thousands of people I have met over the years in the financial industry are, for the most part, honest, hard-working, decent, generous, and intelligent. But, like most human beings, people in the financial industry are better at rationalizing than at being rational. Sliding down the slippery slope of putting their own interests first, they can readily justify every action they take along the way as being in the interest of a higher calling. It becomes much easier to fool other people once you have fooled yourself into believing that what you are doing is right—and, as the physicist Richard Feynman warned, “you are the easiest person to fool.”
If investors are to be partners instead of pigeons, they must master the many ways in which Wall Street uses language to conceal instead of to reveal information. Every profession is a conspiracy against the laity, and every profession’s jargon is meant to confuse and exclude those who aren’t part of the guild. Turning words inside-out to make them mean the opposite is the hallmark of jargon in many fields, as personified by the Ministry of Truth in George Orwell’s novel *Nineteen Eighty-Four*. But rarely is so much at stake in the clear understanding of language: If you find yourself fooled by Wall Street’s gibberish and buy the wrong investment, your dream of a prosperous retirement can be reduced to dust.

Therefore, this book is fashioned after Ambrose Bierce’s masterpiece *The Devil’s Dictionary*, which the great American satirist assembled between 1881 and 1906. Born in 1842, largely self-educated, a Civil War veteran who had come face-to-face with Satan on the battlefields of Shiloh and Chickamauga, Bierce was a ferocious enemy of euphemism, hypocrisy, and muddle-headed thinking. His dictionary shot nearly every institution of society full of holes.

He didn’t aim at Wall Street as often as he might have, but Bierce scored a direct hit every time he fired:

**FINANCE**, *n.* The art or science of managing revenues and resources for the best advantage of the manager.
**INSURANCE**, n. An ingenious modern game of chance in which the player is permitted to enjoy the comfortable conviction that he is beating the man who keeps the table.

**MONEY**, n. A blessing that is of no advantage to us excepting when we part with it.

Throughout his lexicon, Bierce sprinkled poetry, proverbs, and anecdotes attributed to imaginary characters with such peculiar names as Mumphrey Mappel, Hassan Brubuddy, Apuleius M. Gokul, Dr. Jamrach Holobom, and a prolific Jesuit poet christened Gassalasca Jape.

In the same spirit, *The Devil’s Financial Dictionary* also includes flights of fancy that are set off from the rest of the text by $; any resemblance to real people, living or dead, is purely intentional.

Like Bierce’s entries, the definitions presented here should not—quite—be taken as literally true. Then again, the Devil does know his way around the financial world, since every once in a while it does his bidding.
**CHINESE WALL**, *n.* An insurmountable barrier made of paper and ink, constructed by lawyers working at Wall Street firms for fencing off CONFLICTS OF INTEREST, named after but not to be confused with the Great Wall of China, the stupendous fortification of stone and brick and compressed earth that stretches for thousands of miles and looms up to 25 feet high and 30 feet thick.

**COMMISSION**, *n.* The mostly invisible unit of currency on Wall Street set at a level designed to
maximize the amount of fruitless volume generated by traders (and even some investors) swept up in the frantic attempt to make the treadmill go even faster in the belief that if you are running in place you can somehow get farther ahead by running faster

**CONTRARIAN**, n. A sheep masquerading as a lone wolf.

To be a contrarian, you must buy when most others are selling and sell when most are buying—an act that sounds easy but requires almost superhuman emotional toughness. Most professional money managers would destroy their businesses if they thought independently, since most clients just want them to chase whatever is hot until it is not.

Much like the Judean crowd chanting “We are all individuals!” in Monty Python’s *Life of Brian*, every single professional investor believes he is a contrarian. Almost none are. (See HERDING, CAREER RISK.)

**CREDIT CARD**, n. A thin slab of plastic that enables a person to feel pleasure today by incurring pain tomorrow

**CUSTOMERS’ YACHTS**, n. The nonexistent luxury craft purchased by investors with the imaginary profits they would have earned if any of the financial advice they got was any good.
DATA, n. The raw material from which Wall Street fabricates distortions for marketing purposes.

DAY-TRADER, n. See IDIOT.

DEAD-CAT BOUNCE, n. A temporary recovery touted by market analysts in a BEAR MARKET with about as much life as a dead cat thrown off a 50 story building that bounces when hitting the sidewalk. That bounce is not a sign of renewed life; the cat is still dead as are stocks and other financial assets.
DIP, n. and v. A decline in an asset’s market price that has been brief and shallow—as were the first few days of the Crash of 1929 and of the 2008–2009 global financial crisis. While not all dips turn into disasters, nearly all disasters begin with just a dip. Investors who believe that “buying the dips” is a recipe for success should be careful what they wish for; there may end up being more dips to buy than you have the willpower to withstand.

Extensive disclosures may lull investors into thinking that everything they need to know is contained in the prospectus itself—numbing minds to the importance of gathering information from other, potentially contradictory sources. (See CONFIRMATION BIAS.)

DISCOUNT BROKERAGE, n. A firm that enables many investors to wreck their own portfolios instead of paying someone else to do it for them. A minority of a discount brokerage’s clients will use its convenience, efficiency, and low cost to build their wealth instead of impairing it; most, however, will trade themselves silly. Low commissions, paradoxically, are most valuable to those who incur them the least often.

DODD-FRANK ACT, n. A financial-regulation law, enacted in 2010, intended to prevent financial institutions from becoming “too big to fail” but is too long to read, too complex to understand, and too convoluted to implement.
**Earnings Surprise**, n. The countervailing force of reality familiar to the rest of the world but always surprising Wall Street after a company and the analysts that follow its stock spend months pretending they know precisely how much it will earn in the coming quarter. But then reality often intervenes, causing the company’s earnings to miss the forecast. The stock of a company that comes up with earnings only one penny per share short of expectations can lose 20% or more in a few seconds. Although decades of data on hundreds of thousands of earnings forecasts show that
analysts can’t predict earnings within a mile, let alone within a penny, investors continue to be surprised when companies miss those forecasts. That is the biggest surprise of all.
**F E E**, n. A tiny word with a teeny sound, which nevertheless is the single biggest determinant of success or failure for most investors.

Investors who keep fees as low as possible will, on average, earn the highest possible returns. The opposite may be true for their financial advisors, although that is still not widely understood.
FINE, n. and v. The monetary equivalent of trying to stop a pack of rampaging wolves by tugging on their whiskers. A penalty for unethical or improper conduct meant to deter similar behavior in the future that is a minor irritant on Wall Street, regarded as part of the normal cost of doing business, like sales taxes or highway tolls, usually amounting to only a few days’ worth of profits.

FLIGHT TO SAFETY, n. A movement among investors *en masse* that typically occurs almost immediately after a flight of fancy during which they deluded themselves into thinking that risk had been repealed, as they now move to dump the risky securities they recently bought and to replace them with safer assets like U.S. Treasury debt.

_**Fortune**, n. Wealth; also, luck._

Both meanings derive from *Fortuna*, the capricious and unappeasable Roman goddess of change. For most of the past two millennia, the two meanings weren’t merely interchangeable; they were one and the same. Wealth was understood to be largely the result of luck, and luck was the substrate of wealth. As a result, money was regarded as ephemeral. Your fortune was
effectively on loan to you from the goddess Fortuna, who could call her property back from you at any time and without warning. The Wheel of Fortune was indistinguishable from the Circle of Life.

Only once the Enlightenment began to exalt the power of the individual mind did it seem feasible for people to “make” their own fortune rather than merely having it on loan from a fickle goddess. Even as late as 1835, you can hear the echoes of Fortuna in the words of Nathan Mayer Rothschild, then the world’s most powerful financier: “It requires a great deal of boldness and a great deal of caution to make a great fortune; and when you have got it, it requires ten times as much wit to keep it.”

Something was gained and something was lost in the Industrial Revolution, when people finally outgrew the ancient belief that luck and wealth were one and the same: Entrepreneurship became possible, and hubris became an epidemic. As almost everyone came to believe that he or she could make a fortune, it became increasingly difficult to remember that making and keeping wealth is impossible without luck.

Investors who forget this lesson so deeply rooted in the historical meaning of the word fortune will have to learn it for themselves. They are most likely to learn how ephemeral fortune can be, and how much it depends upon luck, just after they become convinced that it is permanent and that they derived it from their own skill.
GREECE, n. A nation in southern Europe famous for philosophy, mathematics, architecture, and short-changing its creditors. Greece was in default or behind on its debt in 51% of the years between 1826 and 2008, according to economists Carmen Reinhart and Kenneth Rogoff. Nevertheless, professional investors rushed to buy Greek bonds in the late 2000s. When Greece defaulted again in 2012, these “experts” were astonished—even though the average seven-year-old would have advised against lending money to a borrower with such a history.
HAIRCUT, n. Sometimes just a trim, other times a scalping, the difference between the reported value of an investment and its price when it is sold or when reality forces a reappraisal, whichever comes first.

HEDGE FUND, n. Funds now numbering in the thousands in which a portfolio of securities is traditionally made available only to the wealthiest investors, of
which there may be about a hundred run by managers who are talented enough to consistently beat the market with below-average volatility. The rest charge ten times the fees of mutual funds for half the performance of index funds, pay half the income-tax rates of taxi drivers, and have triple the ego of rock stars.

HEMLINE THEORY, n. A belief that stock prices rise when the hemlines of women’s dresses go up and fall when hemlines lengthen—purportedly driven by a tendency of skirts to rise in times of economic optimism—proving that Wall Street’s traders, almost always tending to be men, have only two things on their minds (money is one) and that Wall Street has always loved spurious correlations, or variables that appear to move together even if randomness is the only plausible explanation.

If the theory is correct, then short skirts mean you should go LONG on stocks; long skirts mean you should go SHORT on stocks. Hemlines, the theory says, were long in the 1930s and 1940s, when stocks also fell toward the floor; hemlines were short in the 1920s, when flappers ruled fashion and bulls ruled the stock market.
And *hot pants were all the rage* in 1971, when stocks gained 14.3% in the U.S. But the mini skirt was *popular in the mid-1960s*, when stocks bounced all over the place. And maxi skirts *came back in vogue* in 2010, just in time for a roaring bull market.

The theory unravels if you try to account for stock returns in the 19th century, when hemlines never rose above the ankle. And if you want to end up in stitches, just try explaining markets like Dubai or Kuwait, where stock prices are wildly volatile even though women’s hemlines haven’t budged in centuries.

**HINDENBURG Omen, n.** Named after a gas-filled blimp that exploded and burned in 1937, an indicator in TECHNICAL ANALYSIS that purportedly predicts a market crash and that has, in fact, predicted approximately 538 of the past three market crashes. *It is calculated* by establishing whether the daily number of new 52-week highs is no more than twice the daily number of new 52-week lows, then determining that the daily number of new 52-week highs and the daily number of 52-week lows is each at least 2.5% (or 2.8% or 2.2%, depending on whom you ask) of the total

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*“The Hindenburg Catching Fire,”* 1937
number of stocks that either go up or down, if and only if 1) stocks overall are higher than they were 10 weeks ago and 2) the exponential moving average of the daily ordinal difference of advances minus declines over the past 19 trading days is less than the exponential moving average of the daily ordinal difference of advances minus declines over the past 39 trading days.

If you were able to read that in one breath, you are qualified to become either a pearl diver or one of those people who read the disclaimers in automobile commercials on the radio.
LONG-TERM, adj. On Wall Street, a phrase used to describe a period that begins approximately 30 seconds from now and ends, at most, a few weeks from now, in contrast to the real world where the phrase describes a period lasting years or decades.

“Google was a long-term holding for us,” said Hugo Bailyn, a portfolio manager at Grimm, Rieper, Knight & Harkness, an investment-management firm in Opa-Locka, Fla., in an interview on June 13. “We bought it in May.”
REGULATOR, n. A bureaucrat who attempts to stop rampaging elephants by brandishing feather-dusters at them. Also, a future employee of a bank, hedge fund, brokerage, investment-management firm, or financial lobbying organization. (See REVOLVING DOOR.)

The term “regulation” in the financial sense dates back at least to 1827, when Gov. DeWitt Clinton told the New York state legislature in his annual message that “general regulations are indispensably necessary” to limit the risks of another banking crisis like the Panic of 1826.
Regulation fails to stop giant financial firms from periodically destroying billions of dollars of their clients’ wealth and from imperiling the global economy, but it does ensnare smaller firms in tangles of red tape that handicap their ability to compete against the larger firms. That is what lobbyists for giant financial firms call “leveling the playing field.”

**RUMOR**, n. The Wall Street equivalent of a fact.

“Just a Normal Day at the Nation’s Most Important Financial Institution,” cartoon by Kal
SHORT-TERM, adj. On Wall Street, 30 seconds or less—as opposed to LONG-TERM, which is 30 seconds or more.
TECHNICAL ANALYSIS, n. A method of predicting the future prices of a financial asset by looking at its past prices, about as reliable as attempting to forecast tomorrow’s weather by studying yesterday’s. There is some evidence that technical analysis may have a weak ability to predict momentary fluctuations in price for some financial assets, particularly commodities and currencies. But it is unclear whether technical analysis can work over longer investing horizons. After all, the future prices of stocks and other securities are determined by the flows of cash generated
by the underlying assets, not by the past prices of the securities themselves—just as the future records of sports teams are determined by how well the players perform, not by the scores of the games they played in the past.

Since the prices of securities move in an almost infinite range of patterns, no endeavor in the entire investing world is more encrusted with arcane jargon than technical analysis, including the HINDENBURG OMEN, Fibonacci retracements, Ichimoku clouds, vortex indicators, stochastic oscillators, triple exponential moving averages, guppy multiple moving averages, SAUCERS, stick sandwiches, tweezer bottoms, triple bottoms, double tops, HEAD AND SHOULDERS, the long-legged Doji, bearish catapults, bullish abandoned babies, the death cross, and the “upside gap two crows” pattern. It is a good general rule on Wall Street that the more impenetrable the jargon is, the less likely the thing described by it is to be profitable.

**TELEVISION**, *n.* A box or plane of electronic circuits that can take information and turn it into flickering images and noise—unless the information is financial, in which case it will be turned not into noise but nonsense.

**THRIFT**, *n.* The obsolete practice of spending less money than you earn; once believed to be a virtue, now regarded as a disturbing form of deviant behavior.
TREASURY, n. In ancient and medieval times, a storehouse where treasures like gold, precious metals, and currency were stored for safekeeping. In modern times, a government department where gold and currency are spent, if not trashed.

Thomas Nast, “U.S. Treasury: ‘In God We Trust’—But the Devil Is to Pay
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