

Montier, James – Behavioural Investing

John Wiley & Sons, 2007, [Behavioural Finance] Grade



James Montier, top ranked investment strategist at - in turn - Dresdner Kleinwort, Société Générale and GMO, is probably the most important apostle of behavioural finance there is and as such, should be mentioned right beside names such as Daniel Kahneman, Richard Thaler or Robert Shiller. For many investment professionals James Montier “is” behavioural finance. It’s largely through Montier that concepts like anchoring, hindsight bias, herding etc. has found their way into the phrasebook of many portfolio managers.

Even though investing is an intellectual endeavour most investors, as in fact most people, stop to improve their theoretical skills when they leave university thinking that when they enter the real world theory doesn’t really matter – “Those who can, do; those who can’t, teach.” This then means that their knowledge gradually becomes obsolete. Too few read books, instead the source of information is papers from investment banks. Hence there is a need for a bridge between theoretical advances and investment practitioners. For behavioural finance Montier has been this bridge and a whole generation of investment professionals is wiser as a result.

This is Montiers second book. The first one builds on a number of lectures in behavioural finance held as a visiting professor at university. This second (but also the author’s third) book is really a collection of essays written while working as a sell side strategist. The essays are grouped after subject. My only objection is that it could have benefited from at least a small amount of editing. This is a very minor complaint. To me these essays are like old dear friends and I have read them over and over, even before they were published in a book. In such a way, editing would also have taken something away for me personally.

Behavioural Investing is rather an extensive book and large parts are devoted to both individual

irrationality and collective behaviours and the bubbles those can create. In the introductions to his first book, Behavioural Finance, the author describes how he left university a devoted rational expectations-man. Perhaps it is his later conversion that gives Montier the enthusiasm and drive to try to make everybody see the same truth as he saw himself. Everything Montier writes is well researched, clever, unpretentious (with a twist of dry British humour), entertaining and above all important. But the content in these sections isn’t too different from any academic text book on behavioural finance – just a lot more fun to read.

The real strength of the author is when he combines his knowledge of institutional investors and his theoretical knowledge, i.e. when the sell side strategist Montier looks at his own clients with his behavioural finance-goggles. Irrational illusions of how things should be done are exposed for all to see. To an outsider it is perhaps hard to realize how controversial these essays were with investment banks at start as they pointed to “faults” among Montier’s clients. The clients however loved them and “The Seven Sins of Fund Management” is a classic paper. With investors as audience, what you write have to come to practical use and Montier gives extensive advice on how investment philosophy and process, organisation and incentives could be used to correct the biases investors exhibit. This could relate to anything from how they should view risk and minimize the use of forecasts to the opinion that they should become value investors. Montier in many ways gives a behavioural finance foundation for the value investing discipline.

I have long held the view that Montier and Michael Mauboussin at Legg Mason should be locked up in a room, not to be let out until they agree to co-write a book on investments. This should have the potential to become the definitive book on investments of all times.

Mats Larsson, December 27, 2011