

**Fisher, Ken – Markets Never Forget But People Do**

John Wiley & Sons, 2012, [Equity Investing] Grade ★★★★★

Many years ago money manager Ken Fisher with *Super Stocks* wrote one of the few useful books on GARP-investing. With the more recent *The Only Three Questions that Counts* he concentrated on the construction of a rational investment process. This time he zooms in on Behavioural Finance from a practitioner's perspective. The book is a cry to analyse and learn from history. Amen to that.

Fisher takes off from Sir John Templeton's combination of belief in entrepreneurship and his realization that most of the events we see today seldom differ in any material way from historical events, hence the quote "The four most expensive words in the English language are, "This time it's different." To be able to see how business creates value and prosperity over time and to put today's events in perspective one has to have a grip of history. Most of us think we do, when in reality we actually don't.

Not only do we forget prior events so that we don't learn from them. More importantly, we forget our feelings during those prior events. The effect of this is that we experience current feelings more intensely than we remember our feelings the last time something similar happened. The conclusion then is that today's events must be more important and unique than yesterdays. We lose perspective. By analysing history we can see more clearly and avoid walking into the same psychological traps time after time. "At its basics, investing is a probabilities game; it's not a certainties game." "[...] while investing is a probabilities game, it's not a possibilities game." Almost all tail events are possible but that doesn't mean you should invest into situations with bad odds. By "remembering" you can base investments on probabilities based on historical outcomes instead of personal gut feelings. "Market history is a lab. A testing ground for your hypothesis." If

there has been no correlation between two events in history it takes a strong fundamental reason for it to be a link going forward. History presents a way of applying probabilities to forecasts.

After a brilliant preface and great first chapter you get the feeling that this could be the author's most important book ever. I don't think the rest of the text lives up to this – at least not if you have read any of Fishers previous books. The remaining chapters present a number of topics that Fisher thinks are misrepresented in the investment public's collective memory. They span over double dips, volatility, secular bear markets, the importance of debt, political influence on the stock market etc. Instead of reviewing these topics it would have been extremely interesting, as I see it, to know how Fisher (who after all is the founder of an asset management firm) would construct the organization, process, incentive schemes etc. of an investment firm to minimize the effect that psychological traps – like forgetting history - have on investment results.

I personally like Fisher's "grumpy old man"-style of writing. There is no questioning his passion for making the investment world a tad more rational or that the topics are thought-provoking, but he has written about them previously. I also don't agree with Fisher's unwillingness to recognize that, even though there are no economic secular bear markets, there are differences in expected returns for the coming decade based on starting valuation in for example Shiller-PE's or Tobin q's. This is what history teaches us.

Fisher is a long-standing columnist in Forbes. The fact that he for many years has had to structure his investment thoughts and put them into ink has made him one of the sharpest thinkers in finance. The topic of this book is deadly important but I would have wanted Fisher to try a little harder.

Mats Larsson, June 27, 2012