

Mehta, Ravee – The Emotionally Intelligent Investor*LES Publishing, 2012, [Behavioural Finance] Grade* ★★★★★

After reading the first chapters I thought “oh no, it’s just another book listing behavioural biases”. It’s not. This book combines two related genres, down to earth trading psychology books and the more academic texts on behavioural finance. On top, a good sprinkle of the authors and his mentor’s experiences is added. Ravee Mehta has worked as an asset manager for two multibillion dollar hedge funds - Karsch Capital and Soros Fund Management as well as being an analyst for the investment bank Donaldson, Jufkin & Jenrette. However, in the midst of his career he took a step back to reflect. After studies in philosophy at Oxford, Mehta returned to the financial markets to invest his own money.

The purpose of the book was to help the author to become a better investor when returning to the markets. I always feel privileged to take part of investors’ self-improvement projects. As such it’s a very practical book on decision making with numerous advices on self-improvement and how to craft organizations and processes to handle the psychological aspects of investing. The main point of the book is that people, and superior investors for that matter, are all different and to become a successful investor you need both self-awareness and to choose an investment strategy that fits your personality. Hardly a new topic but the book is full of useful elaborations. The other underlying topic consists of methods to utilize social awareness, empathy and intuition to make better investments. I find it sympathetic that Mehta himself uses a combination of momentum and value investing. I’m not sure it would suit that many to combine these strategies but as an author it gives Mehta a broader understanding, where many writers only present half the picture. To be honest however, and understandably given the previous employers, Mehta leans towards trading psychology with its focus on intuition and gut feelings. This shouldn’t discourage long term investors from reading the book.

In short the author’s key takeaways are: 1) “Investing success does not come from ignoring or suppressing emotion”, 2) “Self-awareness is the first and most important step in improving as an investor”, 3) “Humans have certain common investing vulnerabilities, but everybody is unique in their susceptibility to them”, 4) “Because we are constantly changing, introspection should be incorporated into the daily and weekly routines of any investor”, 5) “An investing style that involves riding trends can require very different personality traits and competencies than a more contrarian investment strategy”, 6) “Trading success involves recognizing and taking advantage of the mistakes of others. This requires empathy”, 7) “Technical analysis is a tool for empathizing with the current shareholders of an investment”, 8) “Management teams of the companies we invest in should be self-aware and trustworthy”, 9) Intuition is not a magical sixth sense. It is based on pattern recognition” and 10) “Intuition is best built through objectively reviewing prior decisions”. All excellent advice and there is more where that came from.

With regards to understanding and developing your own ability for self-awareness and social awareness the author gives the reader relatively little help but instead directs him to other books or websites. This is okay, but to some extent it leaves the reader with a lot of advice on what he should do but not really on how to actually pull it off. In later revised editions Mehta might consider adding more of this self-analytical material. It would make the book more complete.

In investing feelings shouldn’t be kept in check, they should be analysed, understood and used. Next week I will make a new attempt to start to write a weekly trading dairy. I promise, I’ve even bought the note pad to write in. Or rather, I got it from Credit Suisse...

Mats Larsson, May 12, 2013