

**Mlodinow, Leonard - Subliminal: How Your Unconscious Mind Rules Your Behavior**

Random House, 2012, [Surrounding Knowledge] Grade



“Who is the boss between you and mommy?”

“Who is the boss? You have to ask that? I’m the boss. Mommy is only the decision maker.”

Woody Allen excels at portraying funny, pathetic and often self-delusional characters. These lines from the film *Mighty Aphrodite* are a case in point.

After reading the book *Subliminal* by Leonard Mlodinow, Allen’s dialogue has taken on a symbolic meaning for me. According to Mlodinow, we are all delusional about “who” is in charge. You see, while you – that is your conscious self – are parading around calling yourself boss, all the real decision making is quietly handled by your unconscious. Your conscious mind merely gets to make up rational-sounding justifications for your choices after the fact but is happily unaware of its diminutive role.

You may question why Leonardo Mlodinow should be the one to tell us how the mind works. After all, his academic specialty is theoretical physics where he has collaborated with the subject’s superstar, Stephen Hawking, for many years. But any doubts vanish when it becomes evident how thoroughly researched this book is. The science is utterly credible and is delivered with the same entertaining, exuberant style as his previous bestseller, *The Drunkard’s Walk*.

Mlodinow has dug deeply into the burgeoning field of neuroscience as well as experimental psychology. The two combined are just now opening doors to vast new areas of information about how human decisions are formed. Modern brain-scanning equipment makes it possible to literally see what parts of the brain are doing the work. This has brought the role of the unconscious back in the limelight after decades of languishing as unfashionable leftovers from the Freudian era.

Now, why should you as an investor be interested? After all, the book is almost completely devoid of any financial references. Well, for one thing, the majority of investors are trained in economics. Modern economics rely on the idea of rational choice, which according to this book is more of an aberration than a norm. The corollary is that most of our economic models need rethinking.

Secondly, the book adds texture and credibility to many strands of behavioural economics. It resonates well with the notion of System 1 vs. System 2 thinking as popularised by e.g. Daniel Kahneman. A reader familiar with behavioural finance will find many passages that illuminate and add detail to its findings. With a bit of reflexion it emerges that our unconscious is the culprit behind many types of irrational investor behaviour, like overconfidence, stereotyping, framing and self-serving perception or memory.

Thirdly and most importantly, the book fills a gap in the education of many investors. Most of us have spent years and years trying to learn various research techniques, valuation models, risk models and lots of other tools. And we continue to spend countless hours either perfecting those tools or cramming data into them. Yet all of these are in reality second-order tools in the investor’s toolbox. Our first and foremost tool is of course the mind we employ to try and interpret information and base decisions on it. The sad fact is that most investors never think to spend a minute on understanding the mind. As Mlodinow is keen to show us, the mind is well worth studying because with some effort, your conscious self can in fact claw back a little of that decision making from mommy.

Alf Rippe, May 1, 2014