

**Ware, Jim – The Psychology of Money***Wiley Finance, 2000, [Equity Investing] Grade* ★★ ★

The starting point for this Jim Ware's first out of currently three books is the observation that very few portfolio managers continuously manage to beat their benchmarks and that the standard solution to this problem is to do "more of the same", only with more energy. The author who after an exam in psychology worked as an analyst for the legendary Gary Brinson, then a PM at Allstate and in 1998 founded *Focus Consulting Group* (a management consultancy working with the investment industry), explores if there aren't other ways to look at the problem.

There are as I see it three big ideas in this book. The first is that superior investors display a broad range of personality traits fostering a holistic and flexible perception of issues and a person can train and improve the traits he's lacking. The second is that to succeed an investor should match his personality to an appropriate – and working - investment philosophy. The third idea is that to get an edge on competition investors must complement their left brained logical thinking with more right brained creativity. The market is constantly changing and only by being creative can an investor stay ahead of the curve. All of these three topics are extremely interesting, in my view correct and could each warrant a book in their own right. The end result of cramming them into the same text is a bit too unsynchronized to receive top marks and the second idea doesn't get the full follow-through it deserves. In the book's language I'm an introvert, owlish lion, which type of investment philosophy or style fits me the best?

The first few chapters look to the personality traits of a number of successful investors and Ware's list of their abilities include breadth in taking in information but also depth in intense focus on a company or a task; creativity in seeing the big picture and themes but equally observational skill in noticing details; passion with a deep devotion to investing but as well objectivity in being able to be clear and unemotional; and finally flexibility to be open to change plus discipline to be decisive and

organized. The great investors display a complexity in that they combine actions and thoughts that most people segregate.

Continuing on the same path Ware presents the so called Myers-Briggs Type Indicator, a tool to diagnose personality types along the scales introvert-extrovert, sensing-intuiting, thinking-feeling and judging-perceiving. Depending on the combinations an investor displays he's a so-called owl, dolphin, fox or the most common investor type - a lion. The premise from above is that superior investors actually score high on all factors, apart from perhaps both being introvert and extrovert, so Ware presents some exercises to strengthen one's weak sides.

With this the author leaves the individual traits and turns his focus to the investment team. The investment industry is to a large extent a lone-wolf industry with brightly or not so brightly shining stars. How does one foster teamwork in groups mostly consisting of lions that are competitive, analytical and used to criticize everything? One obvious solution is to consciously diversify among personality types when recruiting, another is to design processes to aid the team's collaboration. A good 2/5 of the book then goes through creativity tools. To me this was the least interesting part as it focused on how to succeed with brainstorming session-type of exercises without specifically targeting investors or investing. It is as important that investors are creative in their day-to-day thinking as in group exercises like this.

The last few chapters are meant to show evidence of the premise that creativity or intuition is equally important as logic in the investment process. Although I fully agree, I don't think the text really proves the point that is made.

In the words of Bill Miller I think that "behavioral alpha" currently is the most unexploited source of outperformance. There are several interesting leads to achieving this alpha in the text. However, the book doesn't really tie up all the loose ends.

Mats Larsson, December 16, 2015