

## Neill, Humphrey B. – The Art of Contrary Thinking

Caxton Press, 2007 (first ed. 1954), [Behavioural Finance] Grade ★★ ★

This is one of the few general books on contrary thinking that exists. More specifically, there are gazillion publications on value investing but only a handful on contrarian investing. This book is built on a pamphlet and a collection of essays from the 1940s and 1950s. Humphrey Neill was a stock market trader who had retired to the scenic landscape of Vermont from where he sent out the monthly *Neill Letters of Contrary Opinion*.

Although the language is a bit formal it is also obvious that the author had a way with words and one could choose several good quotes from the text. Take these two for example: “*When everyone thinks alike, everyone is likely to be wrong*” and “*If you don’t think things through, you’re through thinking*”. Not only do these quotes give example of Neill’s writing they represent the two main themes of the book – contrarianism and independent analysis.

The crowd is governed by feelings rather than thinking and at times it will be profitable to be contrarian to a consensus opinion that most often will be a belief in an extrapolation of the current trend. An individual who can stay independent of the crowd psychology thinks with his brain instead with his less analytic heart. To accomplish this he must cultivate a practice of contrary thinking, he must be able to fight his own psychological biases and also to correctly judge what the contrary opinion is and the strength of it.

The tricky thing is timing as trends tend to continue longer than one might want to. The crowd is only wrong at trend reversals. Perfect timing will always be impossible but with divergent thinking a person can pick up early clues and act before they are visible to others. Most probably the contrarian will be too early never the same.

According to Neill, contrarian thinking doesn’t mean a person simply takes the exact opposite view than the crowd; it’s simply a different view. To be able to do this he needs to perform a thorough analysis of the subject. It would for

example serve him well to think of longer term aspects, to ponder secondary effects, to weigh in more alternative explanations, to imagine that the consensus view in the future turned out to be wrong and then brainstorm about why this happened and so on. With alternative views of how the future will turn out the contrarian can then anticipate specific changes instead of making specific forecasts that very rarely turn into reality.

Time and again the author comes back to a number of previous writers that had a lasting influence on him, the three most common being Charles Mackay with *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds*, Gustave Le Bon with *The Crowd – A Study of the Popular Mind* and William Trotter with *Instincts of the Herd in Peace and War*. The first two had a huge impact on my thinking as well.

However, I don’t think that Neill’s writing has aged with the same dignity as that of his heroes. Where the others dig into practical details and brings mass psychology into life, Neill discusses crowd psychology on a high analytical level and in a wide variety of areas. The problem is that so much has happened within behavioural finance the last 30 years so the theorizing feels quite thin. While practical mass psychology hasn’t changed the academic understanding has developed. Further, if a book consisting of one pamphlet and a number of short essays is to work as one story, the various texts cannot be too similar to each other. Too many of Neill’s texts are too alike.

I like the combination contrarianism and independent analysis which is parallel to Seth Klarman’s quote on value investing being a combination of a contrarian streak and a calculator, and the author also sniffs around George Soros concept of reflexivity when he concludes that the influence of forecasters void their predictions since investors adapt to them. Too bad then that the text feels a bit too dated.

Mats Larsson, July 29, 2016