

Cialdini, Robert B. – Influence: The Psychology of Persuasion

Harper Business Revised Edition, 2006, [Behavioral Finance] Grade ★★★★★

As an investor, it is essential to make rational decisions and at all times choose the alternative where the value is highest compared with price. Psychological biases often distort this thinking, causing investors to make irrational decisions. In this legendary book from 1984, Dr. Robert Cialdini, one of the most influential persons in the field of marketing psychology presents the most important influences on decision making and provides examples where it leads to irrational behavior.

An interesting fact with the book is that Cialdini mainly wrote it to help people to become aware of the tricks that are used by salespeople. Ironically the same salespeople started to use the examples to their benefit. Cialdini describes his interest in the subject similarly to Charlie Munger, they don't want to be fooled or as Munger describes it "be a one-legged man in an ass kicking contest". I don't want to be a fool either and that's one of the main reasons why I chose to read this book. I want to learn more about situations where influences of psychology are strong in order to improve my decision making in life and as an investor.

Cialdini describes situations where animals react to stimuli in certain ways and how humans have inherited a similar pattern of behavior. Automatic behavior is often, but not always, the most efficient form of behaving. The psychological influences presented in the book are: social proof, reciprocity, commitment & consistency, authority, liking and scarcity. These influences are normally the most reliable in helping us to make correct decisions but for the same reason therefore often used to trick us. They are also increased by stress and fatigue,

causing them to be amplified by the tempo of the modern world.

What's great with the book are all the powerful real-world events that are presented next to the scientific evidence. Cialdini brings up fascinating examples where the influences described have caused unbelievable situations as when 39 people witnessed a murder without anyone calling the police and when 910 people committed suicide in the jungle of Guyana, both by the impact of social proof. Another fascinating example is the Milgram experiment where students sent supposedly deadly electrical shocks to test persons under the influence of authority.

The structure of the book is really easy to follow and even though the main influences are presented one by one instead of in combinations, which might have been a more logical way, the author succeeds in weaving them together. The focus is not on the investment area but it's unavoidable to draw parallels to such factors as confirmation bias, loss aversion and herding among others and thus get an explanation to why these biases are so powerful.

This is a fascinating book and an eye-opener for those who haven't yet realized the power of psychology and how it impacts behavior and decision making. The influence of the book is confirmed by the many devoted practitioners in sales and marketing making use of the examples provided. By knowing about the effects that the psychological influences lead to, they can be tackled, which is the key takeaway of this book.

Niklas Sävås, November 6, 2017