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## The Importance of Finding a James Montier

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### A Recent Dinner

Yesterday a number of friends gathered at a seaside restaurant in sunny Stockholm for a pleasant dinner. This specific party consisted of persons from the financial sector that usually gather once a quarter to eat, drink a few beers and discuss financial literature. The theme for this specific occasion was books that had a decisive impact of how one looked at investing going forward, those books that in a major way changed how we think about our occupation.

For me a number of potential authors could have been viable choices: Philip Fisher, Ben Graham, Edwin Levère, Nassim Taleb and in later days Howard Marks. Still, in the end there were only two real contenders and they were Michael Mauboussin and James Montier, of which - at least in those early days – the latter became my largest inspiration. In all honesty, the time when they were the most influential was actually before they published the books that today make it to the top half of our site's top list of the best investment books of all time. This is because, similarly to Marks' brilliant *The Most Important Thing*, both Mauboussin and Montier later published books that consisted of a number of research notes that previously had a profound effect on my view of how investing functioned.

### The Crash

The books that you appreciate the most are often those that inspire you at important junctions of your life – just as the best music of all times is always for some reason released in one's youth. To understand the impact Montier had, we have to take a step back to the 1990's and early 2000's. I had gone to business school, picked up some of the practical tools of the trade through working in corporate finance and in fund management and then almost exactly at the peak of the TMT-bubble I joined one of Sweden's largest asset managers as a global telecom operator, telecom equipment and media analyst. And then the downturn started.

This asset manager had been early in into technology and telecom stocks and also prudent enough to gradually scale down holdings in the more aggressive Internet-stocks as the craze continued and valuations became more and more detached from reality. Still we didn't fully appreciate how much of the growth within telecom – which we saw as something much more tangible – was dependent on a temporary investment boom. I was too young to have a full systems understanding and we lost tons of money. That is, in reality we outperformed the market but we still lost our shirt and mostly so in my sectors. At one time our seasoned and very well known head of equities in frustration burst out saying *"We will never own one single bloody telecom stock again!"* Not what you want to hear as an aspiring young analyst.

As a side note, this head of equities quite early got us/me out of one of the positions I had inherited, namely a holding in Worldcom. I had met Bernie Ebbers and although he left a very questionable impression the stock was dirt cheap. It's hard to argue against a PE-ratio of 7, but the stock just kept going down. At one point my boss told me, "There is something we don't understand here. Get out." What we didn't understand at the time was of course that much of the earnings were fabricated to start with. Ebbers would end up in jail and the influential cheerleading telecoms analyst Jack Grubman at Salomon Smith Barney was to be banned from the profession for life. In this instance we saved most of our money but there were other positions where we weren't as lucky.



As the saying goes, victory has a hundred fathers, but defeat is an orphan. It wasn't at all that anyone at the firm I worked for blamed me for what was happening, but I still felt quite a bit disillusioned. The sell side had 95% buy recommendations and kept those for most of the downturn so there wasn't much help to be had from that direction. In retrospect I probably over-compensated my absent overview of events by digging even deeper into the intricacies of which equipment vendor that had the best DWDM-technology, which mobile operator price plan that was most competitive and so on.

On top of things I lacked a clear path to develop and take my game to the next level. I wanted to work with more than just a few sectors and it was also clear to me that what I knew about markets wasn't sufficient. Obviously the stock market wasn't the rational equilibrium that I had read about in school or the hysterical joyride I had participated in during the late 1990's.

## And Then Enters

At this time James Montier of Dresdner Kleinwort steps through our door. Today, he's got thick hair and a knack for wearing Hawaii shirts, but by then he mostly looked like a football hooligan – albeit a fairly cultured one. This was definitely the regular sell side analyst.



The timing for someone to try to market the concept of behavioural finance as Montier did couldn't have been more opportune. It was so obvious to many of us in the asset management industry that investment psychology played a huge part of how markets functioned.

## SHARING OF FINANCIAL WISDOM

Montier wasn't alone in this at Dresdner Kleinwort. Around him he had the idiosyncratic economist Albert Edwards, the quant Andrew Lapthorne and sometimes the fellow strategist Dylan Grice – all distinctly different from each other and as a collective from other firms. They were slightly outlandish, thought like their customers and quite often criticized both how their clients and how the banks and sell side acted. I'm sure that the management at DrKW often must have thought of cutting these renegades loose at several times. But the clients loved it so they stayed on – money talks. Most of that crew later moved on to Société Générale and today Montier is a strategist at GMO where he has worked with amongst others Jeremy Grantham, Ben Inker and Edward Chancellor.

The papers that Montier and Mauboussin wrote during the early 2000's became one of the first stepping-stones for me to up my game, to take the next step in my intellectual development. It would be a stretch to say that the two of them were the reason for me becoming such a voracious reader of investment literature from then on; it was rather a parallel development in re-igniting my thinking in how to become a better investor. The self-improvement efforts actually some years later lead to an ambitious book manuscript in Swedish called *Edge* that no-one wanted to publish as it was “*too advanced for the small Swedish private market and not academic enough to become a text book*”. Honestly, it didn't bother me too much as I by then was well on the way to the next level in a still ongoing process of constant learning.

## The Next Level

The topics that Montier covered were behavioural finance but extended broader to psychology, neurology and sociology – combining to cool sounding areas like neurofinance. That's all very fine but the real trick was that he, with a lot of help from the quant team, turned these topics into practical processes and strategies for investors. I was handed investment tools that not all appreciated

and that were applicable to a broad set of investment opportunities.

At times the texts presented some stock recommendations but their practicality really didn't consist of bottom up stock picking. Rather the practical part was how to construct processes, investment methodologies, screens etc. and thereby either avoid falling into the behavioural traps described or instead benefit from others' mistakes. The biases could be individual or based in crowd psychology and the bubbles that those create. Often the pieces took a psychological bias and connected it to a top down value investing strategy that the quant team a DrKW or Société Generale then brought to life. It was using investment processes as a behavioural defense. As such Montier brought up topics that were supposed to help their clients to create tools that they themselves could use to sharpen their ability to manage money.

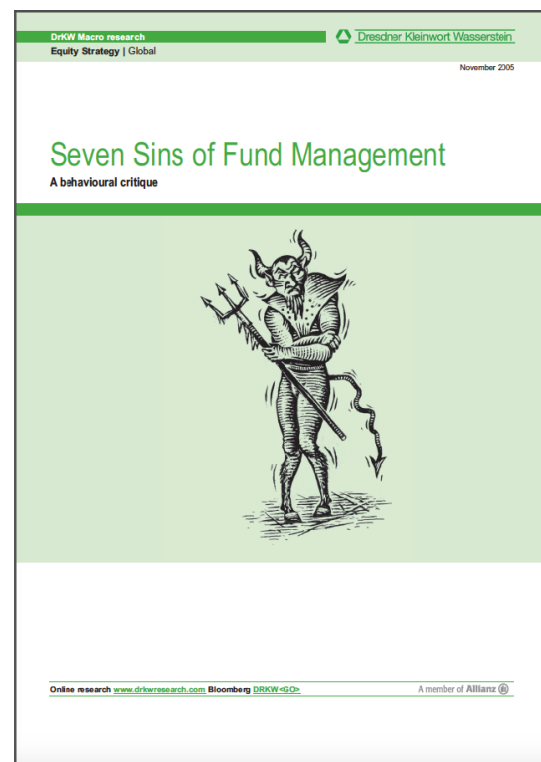
Today quant investors continuously scour academic research for new potential ways to get an upper hand but 15-20 years ago quants weren't as prevalent as today and few ordinary portfolio managers read many books and certainly not many read academic research. What they do read is sell side research. James Montier read all the academic material and packaged it into a format that investors were used to read. In this way he was instrumental in introducing behavioural finance very early to a large part of the European investment community. With the interest sparked we could all then dig further and when Richard Thaler and Bob Shiller in later years received their Nobel prizes (as did Daniel Kahneman) I and many others could boast that we met those guys years ago.

Montier had a somewhat cynical style and the texts had a typical understated British humor that I grew very fond of. In my opinion Montier's texts benefitted hugely from the fact that he continually had to meet investors and discuss what he had published. It was applied academia but it had to be packaged in an understandable way and above all, it had to be useful. The scarcest resource for a portfolio

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manager is his own time. Since the target audience was Europe's largest institutional investors the language and the expected background knowledge suited me perfect.

The research pieces often had eye catching titles like *Placebos, Booze and Glamour Stocks; CAPM is Crap (or, The Dead Parrot Lives!); Keep it Simple, Stupid; Spock or McCoy?; Part Man, Part Monkey; Brain Damage, Addicts and Pigeons; The Folly of Forecasting; Abu Graib: Lessons from Behavioural Finance and for Corporate Governance; ADHD, Time Horizons and Underperformance or Why Waste Your Time Listening to Company Management?* Perhaps the most read analysis was called *Seven Sins of Fund Management*, banning his clients for making seven different stupid types of investment mistakes and then offering his take on alternative approaches.



Still, it might be that the sins text was beaten in popularity by a text called *If It Makes You Happy*. In it Montier draws on psychological research on happiness and presents his top 10 suggestions for improving this. The motivation being that "some of the most miserable people in the world seem to work in finance". Most of the time I

have been happy to work in finance – but then again I read Montier’s advice early on.

### The Books

To date Montier has authored four books. The first called *Behavioural Finance* published in 2002 builds on a number of lectures that he held as a visiting professor at university. As I had grown used to the research pieces I at the time found it academic, dry and ultimately a disappointment. The second book called *Behavioural Investing* from 2007 and the third named *Value Investing* published in 2009 consist of most of the research pieces written by Montier at his time at Dresdner Kleinwort and Société Générale. The texts are loosely grouped after subject. Then the quartet is finalized by *The Little Book of Behavioural Investing* from 2010 that summarizes the earlier work in a condensed and readable format.

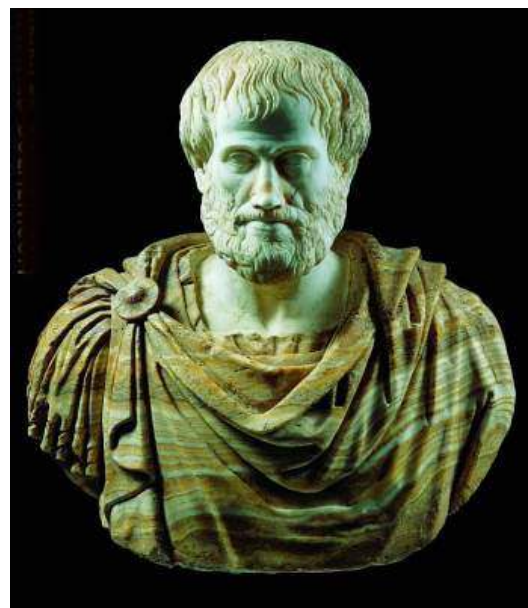
Although the last book is probably more coherent and fluent than the others and certainly better edited it in my view lacks some of the sprawling energy of books number two and three. During those early years Montier was on a mission. When *Behavioural Investing* and *Value Investing* were released I had obviously already read all of the texts and they were rather like old friends but I still reread them and it had the added bonus that I could throw out a ton of research hard copies that I had saved. However, I still have a signed hard copy of *Seven Sins of Fund Management* saved somewhere in the attic.

During a period I wrote columns for one of the two dominating weekly Swedish business and investment magazines. It is probably true that half of these columns were based on concepts, ideas and examples that originated with either Montier or Mauboussin. Since the topics they had covered were largely timeless and universal a different geography, language and some water under the bridge made no difference - the ideas were as relevant as ever. I would argue that this goes for Montier’s books as well.

Mats Larsson, June 25, 2019

### Role Models

Now, I’m sure that Montier would have a blast being called a role model or perhaps even more outrageous - virtuous. But, stay with me: in virtue ethics, as famously advocated by Aristotle, we should all be on a path towards our virtuous best selves that will do good deeds. Virtue ethics concentrates on how to become a better person. In this pursuit the truly virtuous persons are hugely important as role models and standard setters for what is good.



Being prosperous as an investor is also down to constant improvement. Charlie Munger and Warren Buffett have always stressed how important positive role models are for the improvement that is required for deserved success. Benjamin Franklin, Ben Graham and Lee Kuan Yew are some of their favorites. To me James Montier brought new insights and perspectives when I needed them to become a better investor. Hence, an intellectual role model at the right place and the right time for me. We can all benefit from one of those.

Kudos, James!