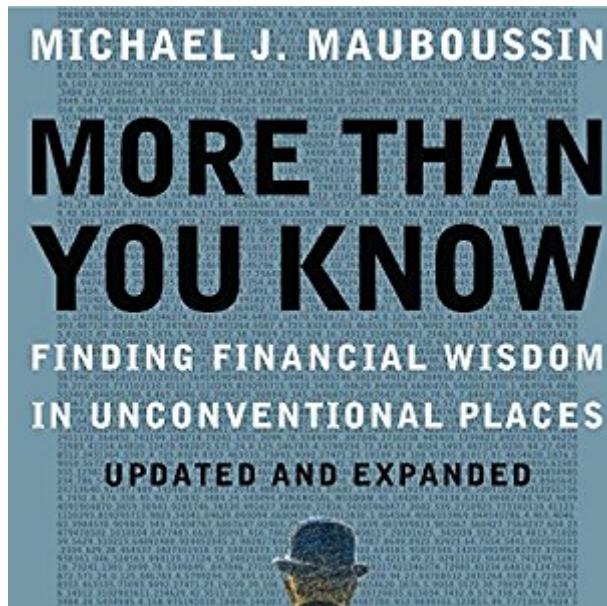


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# More Than You Know: Finding Financial Wisdom In Unconventional Places



## Synopsis

Since its first publication, Michael J. Mauboussin's popular guide to wise investing has been translated into eight languages and has been named best business book by *BusinessWeek* and best economics book by *Strategy+Business*. Now updated to reflect current research and expanded to include new chapters on investment philosophy, psychology, and strategy and science as they pertain to money management, this volume is more than ever the best chance to know more than the average investor. Offering invaluable tools to better understand the concepts of choice and risk, *More Than You Know* is a unique blend of practical advice and sound theory, sampling from a wide variety of sources and disciplines. Mauboussin builds on the ideas of visionaries, including Warren Buffett and E. O. Wilson, but also finds wisdom in a broad and deep range of fields, such as casino gambling, horse racing, psychology, and evolutionary biology. He analyzes the strategies of poker experts David Sklansky and Puggy Pearson and pinpoints parallels between mate selection in guppies and stock market booms. For this edition Mauboussin includes fresh thoughts on human cognition, management assessment, game theory, the role of intuition, and the mechanisms driving the market's mood swings and explains what these topics tell us about smart investing. *More Than You Know* is written with the professional investor in mind but extends far beyond the world of economics and finance. Mauboussin groups his essays into four parts - Investment Philosophy, Psychology of Investing, Innovation and Competitive Strategy, and Science and Complexity Theory - and he includes substantial references for further listening. A true eye-opener, *More Than You Know* shows how a multidisciplinary approach that pays close attention to process and the psychology of decision making offers the best chance for long-term financial results.

## Book Information

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## Customer Reviews

Every once in a while, the Muses conspire to change the things you do. For years, when asked for a recommendation of an investment book, I responded that "Reminiscences of a Stock Operator" provided insights each time I read it. The list is now longer. "More than You Know" by Michael J. Mauboussin has been added. The author, in 50 insightful essays, draws from the latest in behavior economics and cognitive sciences to give the reader invaluable insights into the concepts of risk and choice. His investment strategies are sound. They draw from creative thinkers as diverse as Warren Buffett and Steven Christ; they borrow from activities and fields as diverse as casino gambling and evolutionary biology. Mauboussin believes a multidisciplinary approach based on process and psychology offers the best opportunity for long-term investment success. He breaks his book into four sections: Investment Philosophy, Psychology of Investing, Investment and Competitive Strategy and Science and Complexity Theory. Although his essays are insightful, he provides a thorough bibliography to guide future study. Why the Muses moved to place this book in my hands last week, I do not know. But I am grateful they did. This book is a trove of knowledge and ideas. It is a must-read for anyone who takes their investing seriously.

It is rare to find a book that fundamentally changes how you think about investing, and beyond that, learning. This is such a book. Mauboussin relies on a simple, but fundamentally non-consensus idea - that finding useful links between disparate fields, rather than focusing exclusively on one discipline, can make you a better investor. His sources range from Darwin to Dr. Seuss, his subjects from physics to ant colonies, but all of them are focused on generating conclusions and tips that will help you beat the market. *More Than You Know* builds a comprehensive investment framework in four chapters: 1. "Investment Philosophy" tackles how you should make investment decisions. Focus on process not outcomes, understand that the magnitude of gains and losses trumps their frequency, understand the psychological hang-ups that can lead to bad decisions, and realize sometimes we see patterns where they don't exist. 2. "Psychology of Investing" helps investors identify the pitfalls that prevent us from remaining objective such as stress, circumstance, and bias. 3. "Innovation and Competitive Strategy" teaches investors how to think about industry structures and how they are changed by innovation. In a world of accelerating change, Mauboussin demonstrates the folly of using historical P/Es, how you can profit from mean reversion, and how perception gaps are

generated at predictable stages in a company's evolution.4. Why can a group of people get to the right answer when no individual person actually has the answer? Why do seemingly small scale inputs often lead to massive and disproportional outputs in the stock market? The book's final chapter, science and complexity, answer these questions and posits a new model that is a better predictor of market behavior than standard finance - one that is consistent with empirical findings and can help you understand market moves more clearly. In 1998, Mauboussin wrote a report On the Shoulders of Giants, drawing its name from Isaac Newton's statement - "If I have seen further it is by standing on the shoulders of Giants." In this report, Mauboussin expounds Charlie Munger's view that investors must possess a variety of mental models drawn from the central tenets of many disciplines in order to be successful. Otherwise, you end up applying the wrong tool to solve a problem, or as Charlie Munger eloquently puts it - "To a man with a hammer, everything looks like a nail." This book gives you the tools to get to the right answer.

These thirty short essays offer a view on the financial markets that is informed by a widely read and wide-ranging intellect. At its best this collection will free the reader to view markets differently from ways in which they are accustomed. In particular, general readers not directly involved in the markets may find this book of interest. For others the insights are generally accepted investor truths in no need of further proof. It is the author's view that the markets are a "complex adaptive system" and an inherently social activity. As such we may better understand their workings by looking at other organized systems in nature. Interconnecting links in nature, patterns of psychological behavior, the imitative activity of ants, the life cycle of the fruit fly, or mathematical "power laws" are viewed for what insights they can provide. Much of this leads to already accepted ideas. Here are some examples. A long term perspective is the preferred investment approach. A disciplined strategy ("process") will eventually yield desired results. Too much portfolio turnover is unproductive. Stress is a product of short term thinking. Innovation is a product of information. The rapid flow of information makes it difficult for a company to control its competitive advantage for long. Great growth companies mature through a life cycle and "stall". The pace of company and product life cycles appear to be accelerating. Investors are often their own worst enemies due to built-in biases. The business of investing is often at odds with the interests of the investor. Losses are harder to bear than successes of equal magnitude which tend to be discounted. Crowd behavior, herding, often leads to excesses (Mackay's "the Madness of Crowds"). Still, markets are rational because diverse opinions create a consensus that cancels out individual "errors". Elsewhere we are left holding the problem. One essay ends with this: "One of the major challenges in investing

is how to capture (or avoid) low-probability, high-impact events. Unfortunately, standard finance theory has little to say about the subject". Recognizing commonly accepted patterns as they exist elsewhere in our world is not enough to make us better investors, innovators, etc. In the end we have heard all this before.

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