

**Mauboussin, Michael J. - Think Twice**

Harvard Business Press, 2008, [Behavioural Finance] Grade ★★★★★

The Autobahn to buying low and selling high is cluttered by mental traps, institutional barriers and questionable theories (CAPM, anyone?). This core read by Mauboussin deals with the first and arguably most important of those obstacles: (faulty) decision-making.

The author has previously written the classic *More Than You Know*, co-authored *Expectations Investing* and, of course, a number of thought-provoking articles while a strategist at CFSB and Legg Mason. Like we have noted on this website in other reviews of books written by James Montier or Mauboussin, it is of course no coincidence that these two men have had an enormous advantage by virtue of their client-meeting days while working on the sell-side. The readability and staying power of the books are helped immensely by these illustrations and examples from “the real world”. And while Montier is made up of equal measures Benjamin Graham and Daniel Kahneman, Mauboussin’s kingdom is ruled by Kahneman and Charlie Munger, making him not the interpreter but rather the added contemporary glue between these two, incorporating the realities of investing anno 2012.

While *More Than You Know* was a broad odyssey into investment philosophy, strategy, psychology and innovation, *Think Twice* dives deeper into the realms of *how* we make investment decisions and how your investing would improve by not letting your intuitions play first fiddle. When stakes are high and situations extremely complex, we decide less well. It’s as simple as that. Stress brings out the intuition in all of us, which of course has been made popular in lots of articles with the illustration of the inherited trait from our ancestors: “A lion approaching? Run!” But this is not the savannah, this is the investment landscape of the 21<sup>st</sup> century. So, put those instincts away and counter your

default-system by learning to “think twice”. If not, you will surely be on *Thin\_ \_ice*.

Personally, I do not agree at all with some people’s opinion that “I’ve read one behavioural finance book, so I’m all set there.” That’s like saying: “nah, I saw Barcelona play last year so I’ll pass on those tickets.” Because the gist of the matter is depth and repetition; knowing yourself and your pitfalls better, linking theory with practice and keeping those connections alive and fresh in your decision processes.

Like most other mental competitions, investment management is not about performing on one single occasion, it is all about a string-of-pearls performance. That game requires accumulation of knowledge and a constant tweaking of how to best add them to your everyday work as an investor. Proper decision-making requires rational thinking *and* “second-levelness”. Rational is answering “zero” in the contest of guessing 2/3 of the crowd’s average number chosen between 0-100. Second-level thinking is incorporating people’s mental pitfalls and picking a number around 10 (which is normally where the winning number ends up). It also, incidentally, requires discipline; the discipline to not only nod in approval to all of this, saying “gee, that makes perfect sense”. You have to actually engrain it on a daily basis.

Mauboussin do truly belong on the medals’ podium of Behavioral Finance. And as with the work of the other masters of this universe, he must be read repetitively. Because time is the enemy of the rational decision-making he strives to teach us, and the friend of the faulty factory-settings most of us come equipped with. So my suggestion is that you add this book to your annual, or at the very least, bi-annual reading-list. Chances are you are much less likely becoming a helpless visitor to the everyday stock market beauty-contest.

Henrik Andersson, March 29, 2012