

Smith, Adam - The Money Game

Vintage Books, 1976 1st ed, [Behavioural Finance] Grade



Long before the term behavioural finance there was someone writing about the significance of identity. Long before the witty Buffett-isms, someone wrote those same words as part of his *Irregular Rules*. And long before Michael Lewis carved out his own position as the Wall Street storyteller du jour, someone else did so with similar eloquent finesse. Today, nearly three months have passed since George J.W. Goodman died on January 3, 2014 - or, as the financial after world knew him by, Adam Smith. A name created for him by the publisher of *New York Magazine* so as to keep his weekly Wall Street columns anonymous.

Rarely have the need to quote from a book been greater, and a good way to start is with Paul Samuelson's front-cover phrase "*a modern classic*", as it embraces the book beautifully. On one hand the book is eons ahead of its time, crafting the mindset-house that practitioners like Warren Buffett, Peter Lynch and the behavioural finance entourage would furnish. But on the other hand it has a clear scent of the past. Every book is in some way a reflection of its time. The principles and aura of Benjamin Graham's *Security Analysis* (published 1936) would for example likely have been vastly different without the experiences of The Great Depression and so would *The Money Game*, first written in 1967. The ebullient 1960s are ever present in the book's dense 250 pages.

Which brings us back to what *The Money Game* is about – image, reality, identity, anxiety and money in that order. "*If you don't know who you are, this is an expensive place to find out. That has to do with people who want to lose*". But do not be mistaken, despite the personal writing style (later described as that of "*a witty urban dinner guest*") the book is full of substance, just very elegantly served. It is a clear heir to the Jesse Livermore crowd – people who view the markets as a top-down organism. But it has also proved to be a treasure trove for Grahamites in pointing out the opportunities that abound for people with a bottom-up mentality.

Value and The Game must and will co-exist and jointly move about in a Yin-Yang relationship.

Re-reading the book cover, to cover the brilliance of the chapter *What Are They In It For?* strikes me again. "*Ninety percent of the people in the market don't care about making money*". The term "people" might also have been exchanged from meaning individuals investing own money to civil servants within mutual fund houses. But the importance of being part of what's going on, being there and knowing things, supersedes the making money part, at least correctly defined.

One is reminded of Lord John Maynard Keynes: "*The Game of professional investing is intolerably boring and overexact to anyone who is entirely exempt from the gambling instinct; whilst he who has it must pay to this propensity the appropriate toll*". The size of the appropriate toll via lower returns on high friction-cost trading and being sucked into what's hot at the moment are at the same time detrimental to the overall return of the pool of savings, yet opportunity for the value investing community. But the irony is that money is the way we keep score in this game, but "*for the true players you could take all the trophies away...as long as there is a way to keep score they will play*".

The simple brilliance of the author's *Irregular Rules* (the name itself breathes genius) speaks for itself. But allowing myself to single one out, it has to be Rule#2: "*The identity of the investor and that of the investing action must be separate*". As displayed by the different Rules, part of the quality of the book is the author's impeccable ability to dance to the right as well as to the left; his bias is hard to detect, leaving the reader with the task of being subjective. On a closing note, being so ahead of its time, what did Adam Smith have to say about high frequency trading, topic of the day via his modern-day heir Michael Lewis? Worry not, he devoted an entire chapter to this: "*Irwin, tell the truth now, if all these computers go on the air, as you say, does individual investors stand any chance? -Well, there is always luck.*"

Henrik Andersson, April 26, 2014