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Book Review

The Little Book of Behavioral Investing: How Not to Be Your Own Worst Enemy

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Montier, J. (2010). *The little book of behavioral investing: How not to be your own worst enemy*. John Wiley & Sons, 236 pp., $24.95, ISBN: 978-0470686027

The world of finance has evolved over the years from the conventional traditional approach to encompass the advancement of the relatively new behavioral application. Traditional finance takes an objective and scientific stance that assumes investors are rational, markets are efficient, the mean-variance Portfolio Theory governs, and returns are determined by risk. Alternatively, behavioral finance takes a more practical approach in understanding human-like behavior that adopts both a psychological and sociological viewpoint, all the while preserving much of the framework from traditional finance. Behavioral finance assumes investors are "normal," markets are not efficient, the behavioral Portfolio Theory governs, and risk is not the sole factor in determining return.

The Little Book of Behavioral Investing: How Not to Be Your Own Worst Enemy, written by James Montier provides his readers with 16 chapters of prevalent behavioral challenges and mental mistakes that are commonly experienced by everyday investors. Strategies are then suggested in order to combat what Montier views as bad habits. While reading this book, it is proposed that an investor will become cognizant of his or her own practices and will thus be better equipped to recognize what to avoid and what to improve upon.

The book begins with an introduction, establishing the idea that an investor's worst enemy is inclined to be himself or herself. As it is custom for individuals to base their decisions in life off of emotion, it is critical as investors to remember not to neglect their logical thinking systems. Montier advises that this can be accomplished in numerous ways. For instance, individuals must learn to think more critically, become more skeptical of

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experts, avoid anchoring and excessively confirming our ideas, focus on facts, think long-term, be willing to recognize our mistakes, practice patience, and stray from groupthink.

Despite the practicality of Montier's suggestions, however, it is apparent that knowledge alone does not directly cause a reversal of an investor's behavior. Montier mentions that solely relying upon willpower will be problematic and concludes the book by suggesting individuals alter no more than three behavioral aspects at once. This therefore presents an opportunity for financial professionals in general, and financial therapists in particular, to benefit from this book by recognizing the many mental pitfalls commonly experienced by their clients and assisting in creating behavioral change.

In summary, *The Little Book of Behavioral Investing: How Not to Be Your Own Worst Enemy* may be used as a reference for everyday investors to become knowledgeable about common behavioral characteristics they possess. In order to increase the likelihood of creating change, however, financial therapists, planners, and counselors may also prosper from this book.

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