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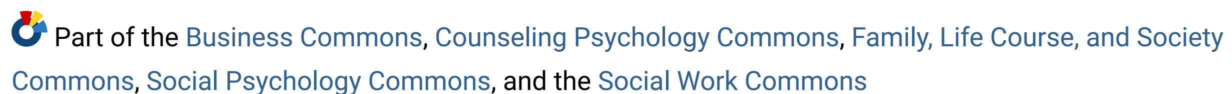
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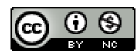
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Book Review

The Behavior Gap: Simple Ways to Stop Doing Dumb Things with Money

Stephen Molchan, MST

Richards, C. (2012). *The behavior gap: Simple ways to stop doing dumb things with money*. Penguin Group.

The Behavior Gap: Simple Ways to Stop Doing Dumb Things with Money, by Carl Richards, is a refreshing and engaging guide to understanding and improving financial behavior regarding investing. Richards, a financial planner and popular blogger, uses simple yet powerful illustrations to help readers understand common mistakes and pitfalls in financial decision-making and offers practical strategies for overcoming these challenges and building a healthier financial future. This book is geared towards improving the overall investing mindset of an individual by diving into the topics of psychology and how investing is a personal, emotional, and intimate topic for many. He provides readers with a clear understanding of managing emotions to make informed financial decisions. The intended audience for this book is individual investors, financial planners, and financial therapists who want to understand the emotional aspects of investing.

Richards states, "we're wired to avoid pain and pursue pleasure and security. It feels right to sell when everyone around us is scared and buy when everyone feels great" (p. 8). He believes that investors' emotional responses to market changes can lead to impulsive actions, which is not in their best interests. To address this, Richards suggests that investors adopt a long-term perspective on investment decisions. He notes that "it makes far more sense to ignore what the crowd is doing and base your investment decisions on what you need to do to reach your goals" (p. 8). This is easier said than done for many. By developing a disciplined approach to investing, investors can avoid making rash decisions in response to market fluctuations.

The book's strength lies in Richards' ability to present complex emotional issues in a clear and accessible manner. The use of simple language and engaging illustrations help readers understand the book's concepts easily. Richards argues that "we are comfortable with the familiar" (p. 118). This bias refers to the tendency of people to stick to what they know and are familiar with, rather than taking on new or unknown risks. For example, imagine that an investor has always invested in traditional stocks and has had success with them in the past. They are comfortable with this type of investment because they understand how the market works and have seen good returns. However, they may be hesitant to invest

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in a new, emerging market or in a different type of investment vehicle like cryptocurrency, even if it appears to be a promising opportunity. This is because the unfamiliarity of these new investments creates uncertainty and discomfort, which can lead to hesitation or avoidance. It's essential to recognize that we are emotional creatures, and our behavior can significantly impact our investment decisions. Richards' insights provide valuable guidance for financial planners and financial therapists seeking to help clients overcome emotional biases.

One exercise Richards offers readers is the overnight test. He asks clients the following question: What would you do if someone came in and sold all of your investments overnight? You're left with 100% cash in your account and are met with two options: (a) you can repurchase the same investments at no cost, or (b) you can start from scratch and make different decisions. If your answer was the latter, Richards argues, why aren't you making those decisions now?

One potential weakness of the book is its repetition in some sections, which may frustrate some readers. This repetition can be seen in the book's emphasis on the importance of having a long-term perspective and avoiding emotional decision-making. For example, Richards repeatedly emphasizes the importance of staying the course and avoiding rash decisions in response to market fluctuations. While this emphasis is critical to the book's message, and a central theme, some readers may find the repetition frustrating. Additionally, some readers may find that the book could benefit from a more comprehensive analysis of the technical aspects of investing.

Another weakness of the book is that Richard's claims are often not backed up with academic research. For example, in Chapter 7, Richards discusses feelings. He states that individuals often hold onto investments for emotional reasons rather than to stay on plan with their overall financial goals. Unfortunately, this statement, like many others throughout the book, is not backed up by actual data. This seems to be a theme throughout the book. Although sources are referenced at times, a majority appears to be the author's opinion from his professional and personal experiences.

The Behavior Gap has significant implications for financial planners and financial therapists. Richards' insights can help these professionals better understand the emotional aspects of investing and how they may influence investment decisions. Financial planners should be focused on financial planning from a life-centered approach. Richards notes, "we have to decide what makes us happy, and then make financial decisions that support those goals" (p. 64). For example, if we want to make an impact in our community, we may choose to work at Habitat for Humanity, a non-profit. Some may say this is a bad financial decision, but looking at it through the lens of life-centered financial planning, it is not at all. It is a life decision in which our financials are then worked around due to the goals we set.

Financial therapists should focus on chapters seven through nine. In these chapters, Richards discusses the emotions behind our decisions and how we can better approach them, understanding bias and being responsible for our financial behaviors, and how we talk about money with others. For example, he notes that "our conversations about money often leave

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us feeling confused, misunderstood, and even angry" (p. 148). Richards explains that this is due to deeper issues that individuals do not want to discuss, like feeling anxious or unworthy.

The Behavior Gap is a valuable resource for anyone seeking to make informed investment decisions. Richards' discussion of the emotions behind investing is informative and engaging. His insights and practical advice on how to manage emotions can help investors achieve long-term financial success. Despite some minor weaknesses, The Behavior Gap is a highly recommended book for anyone seeking to improve their financial decision-making skillset.

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