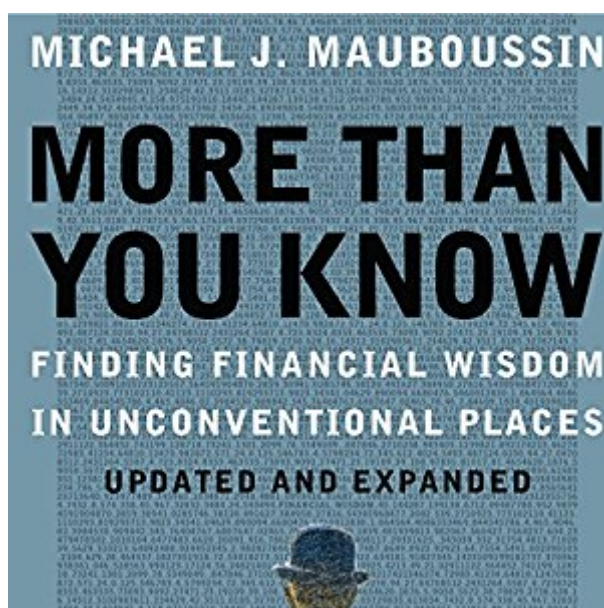


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# More Than You Know: Finding Financial Wisdom In Unconventional Places



## 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

Audible Audio Edition

Listening Length: 7 hours 27 minutes

Program Type: Audiobook

Version: Unabridged

Publisher: Audible Studios

Audible.com Release Date: June 16, 2016

Whispersync for Voice: Ready

Language: English

ASIN: B01GOZ9NOS

Best Sellers Rank: #53 in Books > Audible Audiobooks > Business & Investing > Economics

## Customer Reviews

The core premise of this book is best summarized by the author: "More Than You Know's core premise is simple to explain but devilishly difficult to live: you will be better investor, executive, parent, friend - person - if you approach problems from a multidisciplinary perspectives". He then details his approach: "While the essays cover a range of topics, I categorize them into four parts - investment philosophy, psychology of investing, innovation and competitive strategy, and science and complexity theory. Consider these compartments in a toolbox, each addressing a distinct facet of investing." Michael does an excellent job of explaining his multidisciplinary perspectives for investing in a very accessible and practical way - assuming very little prior knowledge. The separate essays are very focused and direct to the point, making this book very easy and relatively quick to read. A refreshing and very interesting take on investing that can be extended to numerous other fields. A must read! Below are key excerpts from the book that I found particularly insightful:

- 1- "Rubin - 'It's not that results don't matter. They do. But judging solely on results is a serious deterrent to taking risks that may be necessary to making the right decision. Simply put, the way decisions are evaluated affects the way decisions are made.'"
- 2- "I would argue that many of the performance challenges in the business stem from an unhealthy balance between the profession and the business. Many of the investment managers that do beat the market seem to have the profession at the core."
- 3- "...The leading thinkers and practitioners from somewhat varied fields have converged on the same formula: focus not on the frequency of correctness but on the magnitude of correctness."
- 4- "The lesson from the process of theory building is that sound theories reflect context. Too many investors cling to attribute-based approaches and wring their hands when the market doesn't conform to what they think it should do."
- 5- "Investors need to pay a great deal of attention to what influences their behavior. Three of Cialdini's six tendencies are particularly relevant for investors: consistency and commitment, social validation, and scarcity."
- 6- "A dominant idea in Western society is that we should separate emotion and rationality. Advances in science show that such a separation is not only impossible but also undesirable. Yet successful investing requires a clear sense of probabilities and payoffs. Investors who are aware of affect are likely to make better decisions over time."
- 7- "In markets, a symbiotic relationship between positive and negative feedback generally prevails... But the evidence shows that positive feedback can dominate prices, if only for a short time."
- 8- "So The issue is not whether individuals are irrational (they are) but whether

they are irrational in the same way at the same time."9- "In effect, when the environment is uncertain, it helps to start with lots of alternatives (e.g., synaptic connections) and then select (via pruning) the ones that are best given the environment. The process is undoubtedly costly because lots of energy and resources necessarily go to waste, but it's the best one going."10- "Chess master Bruce Pandolfini observes four behaviors that are consistent among chess champions and useful in thinking through the short-term/long-term debate. 1) Don't look too far ahead...2) Develop options and continuously revise them based on the changing conditions...3) Know your competition...4) Seek small advantages."11- "Idea diversity allows you to find what Johnson calls "weak signals." A weak signal may be the start of a trend away from the dominant path (such as new technology or development) or the right piece of information at the right time from an unexpected source."12- "In his 2001 letter to shareholders, Warren Buffett distinguishes between experience and exposure. Experience, of course, looks to the past and considers the probability of future outcomes based on occurrence of historical events. Exposure, on the other hand, considers the likelihood - and potential risk - of an event that history (especially recent history) may not reveal. Buffett argues that in 2001 the insurance industry assumed huge terrorism risk without commensurate premiums because it was focused on experience, not exposure."13- "If the stock market is a system that emerges from the interaction of many different investors, then reductionism - understanding individuals - does not give a good picture of how the market works. Investors and corporate executives who pay too much attention to individuals are trying to understand markets at the wrong level. An inappropriate perspective of the market can lead to poor judgments and value-destroying decisions."14- "The stock market has all of the characteristics of a complex adaptive system. Investors with different investment styles and time horizons (adaptive decision rules) trade with one another (aggregation), and we see fat-tail price distributions (nonlinearity) and imitation (feedback loops). An agent-based approach to understanding markets is gaining broader acceptance. But this better descriptive framework does not offer the neat solutions that the current economic models do."

I had thought this would have some thought provoking ideas that were loosely relevant to investing, but was pleasantly surprised at how pertinent most of this book is to investment decision making. I also found the conclusion (that there is simply a ton that is unknown about how markets function in practice) refreshing.

This was recommended by a reviewer in a 2015 section of book reviews in the Washington Post. The main ideas seem to be the ubiquity of the "S curve" in corporate growth and the importance of

expected value of future earnings (versus consensus expectations) to investment gains over time. And consilience among various inputs from subject-matter experts.

This book has several short essays each of which tries to explain a finance-related concept with the use of real world examples, analogies, and the like. The author makes himself clear on the issues, and the text is easy to understand. Although much of the content is common to experienced investors, the book contains many helpful insights for the new trader and/or average reader. Among the insights that I have gained reading the book, I think the most blatant one that I liked is the "quality investment philosophy themes". These themes are as follows:- In any probabilistic field, you're better off focusing on the decision making process than on the short term outcome.- Taking the long-term perspective is essential, because short term has too much randomness.- Internalizing a probabilistic approach to investing is essential. The book has several references to other finance-related stuff (there exists a 52-page references list at the back of the book). These references might trigger some deeper studies for the reader. I would like to finish this review with one of those references, a quote from Peter L. Bernstein: "The fundamental law of investing is the uncertainty of the future."

This is a collection of essays and articles by the author. They are filled with information about psychology and investing, and teach the reader just how the brain works when it comes to investing/gambling. I have read several books by investors/coaches/traders who speak to this, including Elder, Tharp, Mark Douglas (now my 2nd best after reading this book)., Koppel, and more. I'd say this is just as insightful as anything Douglas wrote and recommend them both. I have yet to read Thaler. It seems with many psychology books, you have to read slow and pay careful attention, there will be many words that the psychology field uses you must remember the name of, so it's a slow, but very interesting read. I found parts fascinating, and interesting, including the parts about guppies, and ants. Great book! You have to have good emotional control to perform optimally in the markets, so reading these types of books is just as important as those books that teach you how to pick stocks, if not more!

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