Paul Craven - Transcript

Jim:	00:00:31	Well, hello everyone. It's Jim O'Shaughnessy, with my colleague Jamie Catherwood, and super excited about today's guest, Paul Craven, an expert in behavioral biases, and why we humans screw everything up. Paul, you have an incredible CV. Cambridge, PIMCO, Goldman-Sachs, and now you're off on your own. So I guess my first question I am going to ask you is about your logo. I think it's fantastic, and maybe you could describe it to people.
Paul:	00:01:07	Sure. It's based on an old optical illusion, from actually the 19th century. There was this professor of psychology called professor Jastrow. And what he did was he recognized that with certain shapes, you could deceive the human mind. And so I've used it as the logo on my website and on my Twitter account. And essentially the idea being is if you have two shapes, two curved shapes, and in my lectures I use two shapes, one saying psychology and one saying economics. And what I would do is hold up two curved shapes to the whole audience like that-
Jim:	00:01:40	Yep.
Paul:	00:01:41	And I would show the audience that the two curves look the same size, more or less exactly the same size. And then I would emphasize there's no slight-of-hand here or magic going on. It's just purely an optical illusion. If I change the two shapes around, the one saying psychology will be on the top, the one saying economics on the bottom. If I change them round, now-
Jim:	00:02:00	Oh, fantastic.
Paul:	00:02:00	... the shapes are completely different sizes. Now you have to see it to believe it. It is my pinned Tweet on @CravenPartners on Twitter. But it's the most extraordinary illusion and I've seen it, Jim, probably 25,000 times in my life and it fools the hell out of me.
Jim:	00:02:20	Always, right? That's the interesting thing. And, by the way, Paul, we will have all your information and everything on the episode so your website, your Twitter handle, et cetera. And Paul actually just held his logo up for me and you really need to look at this, listeners, because what amazes me about it is that, as you say, Paul, we continue to be fooled.
Paul:	00:02:45	Yep, absolutely. And I obviously use that as a way of introducing and saying I think psychology is a really important part to add to

anybody's financial analysis of markets or economic thinking or whatever. And I think that historically settings of, shall we say, as far as the [inaudible 00:03:01] concerned, behavioral science or behavioral finance, if you like, is something that I think has just become so important. And, yes, people are much more aware of it now than they were 20-30 years ago in the work of Kahneman and Tversky and all the other rock stars, if you'd like, has helped to do that. But I think for me, I became really aware of it. It's actually quite a good story. I was working at Schroders at the time. I've only worked at three firms, Schroders, PIMCO, and Goldman.

Paul: [00:03:28] And I was at Schroders and I remember, I think we were in the pub at the time, and I was actually drinking with some economists. And I whisper that quietly, but I was with some economists. And they were actually a bit pissed off. They were a bit annoyed, a bit irritated. And I said, "What's wrong guys?" And they said, "Well, this guy's been given the Nobel Prize for economics." And I said, "Go on." They said, "Some bloke called Daniel Kahneman." And I said, "What's wrong with that? Why's that irritating?" They said, "Because he's not an economist, he's a psychologist." And I immediately thought, "Hello, this sounds interesting." And being me, I went away and found everything I could that he'd written in those days, obviously long before his book.

Paul: [00:04:12] So I'm reading about his experiments and loss aversion and so on and so forth. And I became hooked on it. And I became hooked on it for two reasons, I think. One is I've always worked I the asset management industry and so I'm fascinated by investment and investment decision making. And two, as well as being a poor fellow at managing my career, which is kind of the first half of the career, the second half of my career was all about distribution and sales, marketing, persuasion, influence, trying to promote ethically good products for people I thought they were good things for. And I've always worked on the institutional pension fund side and that's been my area. So it struck me that what behavioral science was giving me, I thought, was great additional information or clues about how to, first of all, invest.

Paul: [00:05:00] And although I wasn't investing on behalf of my clients per se, by that stage of my career I was [inaudible 00:05:04] investors and I've always followed it to this very day. But I was interested in could I be more persuasive, more communicative, more influential at getting what I thought was a good message across to them? And those two kind of attracted me. Behavioral science for me has been absolutely gold dust and I would commend anybody to look at it if they haven't studied it before because I think it just gives you so many advantages over people that know nothing about it.

Jim:	00:05:27	Yeah. The first paper I wrote in 1987 was essentially all behavioral finance but I had to get it from books that weren't called behavioral finance. They were books done by psychologists testing actuarial models versus human decision making. And when they started these tests they thought that the actuarial models or algorithms would be a floor above which the humans would soar. What they found was that it was the ceiling that humans could very rarely touch. And many of the conclusions basically came down to the reason the models beat human beings, because after all they're designed by human beings, right? They beat human beings because they are meticulously described and also consistently carried out. I have found over my career that one of the big challenges for we humans is that our operating system is kind of optimized for about 100,000 years ago and after all we are the descendants of everyone who when they saw that bush shaking ran away, right?
Paul:	00:06:41	Yep.
Jim:	00:06:43	They didn't get eaten. And so, one of the other questions I would have for you because it's something that I've had a lot of experience with but I'd be interested in yours, did you find originally that people were very sort of not open to your message? Like the economists in the pub?
Paul:	00:07:04	Yeah. I think that there were a number of ways of looking at it. Yes, there was skepticism because I think a lot of people initially thought it was a bunch of just-so stories, sort of nice Atlantic types. And, indeed, it's very important, I think, to use that type story to illustrate some of the key points. Why not? It's a really good way of communicating. It's much more persuasive than lots of boring data. I think that's one reason. I think the second reason is that people are skeptical about it in some ways because they say, "Well, what's the point of it? What's its true message?" Or, "What's its overriding scientific thesis?" And I think for me behavioral science is about understanding randomness. It's about understanding we live in complex systems.
Paul:	00:07:46	It's about understanding about how humans make decisions. A lot like I kind of had my definition of behavioral finance. I call it how real people make real decisions in the real world. And why do I emphasize the word real three times? Because we're often

taught how we should make decisions or how economists think we optimize and all those kind of good stuff that we're taught in traditional economics. But I think in the real world people make decisions often very differently. And I think what I love about it most of all is that the inputs come from everywhere. Now this is what frustrates some people, some academics, for example. Or certainly some city folk because they say, "Well, hang on a second. Where do you get your information from?"

Paul: 00:08:23 And I'll say, cognitive psychology, social psychology, sociology, history, statistics, biology, evolutionary psychology, evolutionary biology, the real world. And that is the lovely thing about it. I think I first became interested in it ... I didn't know it was called this in those days but my dad, he is a very interesting character, I should say. He's still with us, alive and strong. He was an insurance broker in the city for, I think, 20 years or so. And one day for various reasons he decided just to up sticks and decided to go and run a pub. He ran a public house. And at the time I was obviously surprised but over the course of my life, I've genuinely come to realize how that was a very important thing for him. It was the right thing to do for him.

Paul: 00:09:11 But actually as far as my development became, and my fascination with people and behaviors, I think I got a lot of it growing up in the pub and working behind the bar. And I don't mean drinking, and I don't attribute [inaudible 00:09:25] but actually watching human beings that work and play in the pub and learning lots of psychological tricks. I may not have realized it or called it that in those days. And then years later I've sort of seen it again. For example, it's a little psychological trick. I had a great friend at the golf club that I remember, he's now unfortunately passed on, called Johnny Gould, and he was a great bon vivant. A Welshman, charming, wonderful man. Everyone loved Johnny. And I remember one day I said to him, "John, can I get you a drink?" And he said, "Yes, my dear boy."

Paul: 00:09:57 He'd say, I won't do his Welsh accent. He'd say, "Yes, dear boy." He said, "I'll have a gin." And I thought, "Well, I'd better ask him, does he want a large one or what size is the right thing to buy John?" He was a bon vivant. But before I could even ask this question he says, "I'll leave the size to you." Now, just thinking about that, I can't not buy him a large gin-

Jim: 00:10:19 Exactly.

Paul: 00:10:19 ... when he says that. And again, it's a little psychological thing. And I don't mean to over emphasize how he says this but you

		see things like this all the time. I'll leave the size to you and I had to buy him a large gin but he hasn't asked for a large gin.
Jim:	00:10:30	Exactly.
Paul:	00:10:31	And it's little things like that, that if I see these things I write them down and if I ever get round to writing my book, which I hope I will, those little things are in there because it's so interesting to me the whole time. And for me a lot of this is about context. Again, I know you've interviewed Rory Sullivan recently and I've said to Rory ... Rory said, "What would you ever call your book?" And I said, "Probably something like Context is All," because there are so many ways of framing things to make them completely different issues to how you first perceived them. And it can be lots of humorous things. It can be serious things. It can be about investment. My brother was once, he was doing a bungee jump in, I think, Darwin in Australia.
Paul:	00:11:12	And he climbed up the ladder. He was very nervous. He was trying to impress his girlfriend then that was watching from down below. And he climbed up this ladder. I think Darwin's a particularly high one. And there's two Aussies at the top and my brother speaks English. He's probably about 19 or 20 at the time, maybe a bit older, and nervous. And his heart is sort of beating out here. It's kind of like scene from The Alien. His heart is almost about to explode. He's very, very nervous doing a bungee jump. And there's two Aussies up there. One sort of drops to his knee and starts to tie the bungee round his ankle. And there's the other guy up there who's got the clipboard. And the clipboard guy says to Neal, "Right, mate, just got to follow through a few health and safety things."
Paul:	00:11:58	And he says things like, "Name? Weight? Height?" Checking out with the guy down below who'd measured and weighed Neal to check it was the same person who'd gone up the long tall ladder. And he's going on this clipboard and he says, "First time, mate?" And Neal says, "Well, yes, actually." And the Aussie goes, "I wasn't talking to you, I was talking to the bloke tying the thing around your leg." That's actually, again, think about the psychology to all that. It's wonderful. And these little things just come up all the time and so I write them down and keep them. And I've got hundreds of pages down I need to one day try and synthesize into a book. But I think the serious point is a lot of it's about perception, about framing, about how we ...
Paul:	00:12:47	Again, the basis of a good joke is actually sort of a quick twist on the psychology and that's the secret to a lot of good jokes. And I

love it. And as I say, going back to the serious stuff, when it comes to being influential, trying to persuade people to listen to an idea, I think it's just gold dust, and that's even before we talk about the investment. And I guess if I had a kind of mantra, it's the old [inaudible 00:13:16] saying, "People don't know how much you know until they know how much you care." And if you think about it, if you have a sales person in front of you trying to promote anything to you, if you think the sales person cares, not for him or herself but for you, you have a huge advantage.

Paul:	00:13:33	There's lots of these little things that behavioral science has taught me and I guess it goes back to the old adage, "If people like you they'll talk to you. If they trust you they'll give you their money to look after." And so I think it's always been very much from an ethical point of view. I don't use this in terms of psychological mind control or anything like that although I am very interested in magic which I'm sure we'll come onto-
Jim:	00:13:54	Oh, my God, we are brothers from a different mother. I was a magician when I was a teenager.
Paul:	00:14:00	Wow. Wow, there's so much to talk about magic and I'll come onto that in a second. Well, I'll come onto it now if you like. It was quite interesting because when I got into magic in my 40s, I got into it late. And I was quite lucky actually because I think if I got into it early I would've probably ended up being a magician which could've been great and very different but I'm very happy with the way my life's gone so far. And I'm loving the fact that I'm now loving magic and I've had a business career as well. But here's the point now, Jim, is I've used a lot of techniques I've learnt in magic, which we can almost call behavioral science, we can almost call them that, in my business. And then the two have fed off each other.
Paul:	00:14:43	A little small example, I remember being at Goldman and word got round in the markets that I was quite useful at magic and so a lot of people, a lot of clients or prospects would say to me, "Paul, ..." We'd be in the office doing a sensible meeting and say, "can you show me a trick?" And I soon developed a standard response which was "No, because we're now working and it's the office. But if you want to see me for a drink or dinner after work next week or next month, I'd love to put it in the diary and I'll show you as much as you like then out of office hours." And, of course, when it comes to liking and trusting, I was just trying to cement the relationships. I wouldn't say it worked every single time but people were intrigued and it's quite fun to do that.

Paul:	00:15:29	But again, it was within the context of trying to a very serious decent job but why not use the extra things? Like other little things, I've got so many little tidbits and I don't know where to start but I presume you watch Penn and Teller.
Jim:	00:15:45	Of course, yes. Love them.
Paul:	00:15:46	Well, Penn Gillette, you may notice, he paints one fingernail a different color. And I used to think about why he did it. And I thought, I'll try it. I'll just paint one fingernail. And won't do the bright loud color, I'll just do something subtle. And what I found was, in business meetings if you do it, you'd be sitting there and you'd just talk away and I'd forget I even had it painted, just one nail. But you could see people would suddenly catch sight of it and they'd want to ask you why you did it, why I did it. And I'd begin to enjoy the fact. I knew they wanted to ask that almost more than anything around the meeting table. And in a perfect world this happened so many times. It happens like this, we'd get to the end of the meeting. We'd close the books at the end and whatever.
Paul:	00:16:37	And then someone, it was often the most senior person, would say, "Paul, one more question." And I knew what was coming. They'd say, "I've got to ask you a question, why do you paint one nail?" And I would look up at them and I would smile and I would make it look very ad lib but it was well rehearsed. I'd say, "Oh, that's just a psychological experiment. I want to find out who the most curious person is in the room."
Jim:	00:17:01	Fantastic.
Paul:	00:17:03	They're flattered. It's probably true as well, incidentally. And we've just built a new relationship that takes us away from business. But actually we're still there in the business context but actually we've got a new bond now. And again, is that behavioral science? I don't know but it kind of works and for me it's little things like that that can make a big difference. And ultimately, when you're an asset manager, say, and you're pitching to a client and they've probably seen, I'll make this up, three or four in day, different managers. They've all probably been totally excellent, good process, good philosophy, explain their works well. They've probably got similar sorts of numbers, who knows? Anything you can do to make a difference could get you over the line for the business.
Jim:	00:17:49	Yep.

Paul:	00:17:50	And then, of course, this is very important to say, you've got to earn the trust they've given you over the next hopefully five, 10, 15 years. And again, client relationships. There's huge amounts of things you can do there using behavioral science techniques, if you like. And one thing, this idea of liking and trusting being the two stepping stones to a good relationship, it fascinates me, Jim, because I commissioned some research when I was at one of my former firms to try to understand from clients how long they would give you before they fired you if your performance was poor, really poor. And we got a lot of data back from the clients. It was a big, big survey we did.
Paul:	00:18:39	And what we found out was that actually, if you had a good client relationship manager on your accounts, the clients did, they reckon that would buy you 18 months worth of extra time before they would ordinarily have fired you. Now let's just think what those 18 months mean. The cynic could say, "Well, you're just talking about 18 months of fees." No, I'm not. That doesn't interest me at all, actually. It gives you 18 more months to try and turn performance around, to get it right, to show them that your longer term investment philosophy is right. It may have had a bad period in the short term. It buys you a few more months which might get you another five or 10 or 15 years worth at the clients.
Paul:	00:19:23	And again, I'm not saying any of these little things on their own would matter but just the whole idea of building up a relationship. And I think if I ... Essentially because I worked for three absolutely extraordinarily good firms, and if there was a common theme between them and, of course, they were the asset management side not the investment bank side, but I think I can say this about asset management, the best asset managers are not just good portfolio managers, they're really good at relationships. And for me, relationships matter so much more than transactions because relationships equal time. Transactions equals today.
Jim:	00:19:59	Yep.
Paul:	00:20:00	And if I should come across someone who is going to be a potential client, I thought I want him or her to be my friend for a long time and I want them to know all about me, the truth, the firm, the portfolio, the product. And I want to know about them. Now I'm not saying everyone is actually [inaudible 00:20:18] to giving everything away and everybody must receive it differently but generally people like that, generally. And so that was the mantra.

Jim:	00:20:26	Yeah.
Paul:	00:20:27	And by the way, I think that's behavioral science in a nutshell.
Jim:	00:20:30	Yeah, I-
Paul:	00:20:30	It's context and framing and making sure that that's what works.
Jim:	00:20:34	Yeah, I agree with you. It's like the old death insurance didn't sell at all and suddenly they renamed it life insurance-
Paul:	00:20:42	Life insurance.
Jim:	00:20:42	... and billions and billions in sales. So framing obviously incredibly important. I love the story about your brother. I love Aussies. I think they're fantastic. We were in Nepal and we were going to take a helicopter to go up to see Everest. As I joked to my wife, that's as close to the peak of Everest as I'm ever going to get, right?
Paul:	00:21:06	Right.
Jim:	00:21:08	So we get this form and it's in really broken English and so I'm reading it and it's a waiver. I'm reading it and I'm kind of smiling and the translation isn't that great but my wife is looking at it and she goes, "Wait a minute. What's that last line?" And so the last line reads, I acknowledge that I will probably die on this ride.
Paul:	00:21:39	Yeah, nice.
Jim:	00:21:42	So I'm getting a little nervous. And I signed the form and out walks the pilot who's an Australian. And I immediately get relieved because I've spent a lot of time in Australia and New Zealand, loved them. Love the Kiwis, love the Aussies. Anyway, he's looking at me, huge smile on his face and he goes, "You read that last line, didn't you?" And I went, "Well, of course, they're not serious." And he goes, "Oh, mate, they're deadly serious."
Paul:	00:22:08	And, Jim, only an Aussie can say that and get away with it.
Jim:	00:22:13	I know. I know. It's like Brits, for example, I have a lot of Brit friends. You can get away with so much. There's a wonderful joke online where they give British accents to people saying really stupid things and they'll take a variety and almost always Americans, of course. But then they'll have someone with an

		Etonian accent read it over and all of sudden it sounds like genius.
Paul:	00:22:43	That's funny. That's funny. My wife and I, we were on a cruise a couple of years ago. We met a couple Americans and the lady was really interested in the British accent and she spent the whole of the seven days on the cruise trying to say brilliant. She said, "We don't say brilliant in America. You say it all the time, you Brits." And she'd go, "Brilliant." And it was so forth down to [inaudible 00:23:13]. I don't know, anyway, we loved them and we became great friends with them. But I remember it. Just talk about reframing, though. I think it's interesting because we're here talking about investment and business and stuff but I think it's really important way of, shall we say, personal mental health because if you can reframe certain problems you have or challenges you have, what I've found, and I've learned this from experience. It hasn't been anything other than that, is that actually you can diminish them.
Paul:	00:23:46	And I know you and I have kind of joked a little bit on Twitter about stoicism and about it's not so much the problem as how you react to the problem, how you perceive the problem, how you ... There's a lot of wisdom in those ancient stoic writers, Epictetus and Marcus Aurelius and Seneca and all those. Good stuff and I'd recommend anybody to read them, by the way, because there's a lot of ways with dealing with lots of personal challenges that we all have. But it just struck me that if you can, what's the phrase, almost third-party a problem. If you could say, "If this wasn't problem but if this was Jim's problem-"
Jim:	00:24:23	Yep.
Paul:	00:24:24	... "what advice would I give him?" It sounds ridiculously simple but actually it works. If Jim came to me and said, "I've got this problem," I would probably better think about it logically and reasonably unemotionally. But once it's my problem, I'm sort of seething and I'm angry or I'm upset or I'm whatever it may be. And it's a different problem and it's much, much harder to solve. And this kind of stuff is really important potentially in this high-pressured technological age we live in. We live glued to screens and everything else and the pressures of work and COVID and everything else. Sometimes little things like this again can be really helpful. I'm a very keen golfer, unusual golfer because I use hickory golf clubs over 100 years old.
Jim:	00:25:10	Wow.

Paul:	00:25:11	But there was a famous golfer 50-60 years ago called Roberto De Vicenzo and he won a competition. I think he walking up to the clubhouse with his cup and a woman came up and confronted him. And she said, Mr. De Vicenzo, I'm really sorry. I've got a terrible problem. And I know you just won but my child has got leukemia and I desperately need $200 for the treatment." And Vicenzo said, "Just tell me more." And so she basically told him a little bit about her kid and he decided to just give her the money and he gave her the money there and then. And I think he gave her a few hundred dollars. And he went away. And later one of his friends said, "By the way, you know that woman that you gave the money to? She's a scam artist. It's all nonsense. She's been trying to fleece people. You actually gave her some money." And what did Vicenzo say? He said, "So her daughter's not dying? That's the best news I've ever heard."
Jim:	00:26:23	Fantastic.
Paul:	00:26:25	Just basically was to get angry and that was his reaction. And I just thought, "That is just fantastic," and if only I could be more like that when times when I've lost money or been ripped off or whatever it may be. It's fantastic attitude and again, interesting.
Jim:	00:26:43	I think I am very simpatico with that and the whole idea. I used to always say, to the irritation of my wife, "Well, what would a dispassionate observer advise?" So I've tried to internalize that. And you're absolutely right, the stoics are very, very helpful in that because it isn't the event, it's your reaction to the event. And the other thing that has been very helpful for me is don't waste one second worrying about things or getting angry about things or getting all worked up about things that are outside of your control.
Paul:	00:27:27	Yeah.
Jim:	00:27:27	Because the only thing that's going to happen is you're going to degrade your ability to think. You're going to probably make emotional decisions, and also your story about the golfer I love because what he internalized was he instantly reframed. And if you can teach yourself that skill, I think that that is a super power because so many people just are reactive to an event and it really disheartens me because there are so many ways that you don't have to let that happen to you. But I think, back to investing, I think one of the challenges it also creates is if you are the type of person who surrenders their agency to others out there so it's their fault, they caused this problem. Well, I think that might short term make you feel, I guess, better. Wouldn't me but many people maybe.

Jim: [00:28:41] But when you surrender your agency, I believe very much that you surrender your control and I've always believed that as long as you can understand that you get to make a choice, you get to make the decision, that becomes a very empowering thing that affects a lot of other things. There's a lot of knock-on effects from beliefs and so much so I change the way I talk ... I read a lot of threads and talk about this a lot, behavioral science a lot, et cetera. And one of the things that is just very, very touchy are people's belief systems because what they do is they take a belief that may or may not have empirical support. They buy into it and then they get an emotion tied to that. And if you are questioning that belief, all you have to do is scroll Twitter, to paraphrase Kipling, we are these islands of uncertainty screaming at each other across a sea of uncertainty.

Jim: [00:30:02] And so I agree. What would you think, Paul, would be the ... Let's do it. Let's use your example. I'm going to come to you and I'm going to say, "I have a problem and I just get so mad when I watch the market every minute and I just see my portfolio being destroyed and that darned money manager, I'm going to fire him. It's his fault." What would be your way of diffusing that sort of situation?

Paul: [00:30:38] Okay, well I think there's a number of things. A couple of things, maybe you used this phrase, "I'm watching the market," and I would try to encourage you not to look at your portfolio too often. One of the most extraordinary things, I think, and I have become a better investor since I look at my portfolio less. And there's two reasons why. One is I don't get emotionally drawn into the down days which happen almost just as much as the up days typically. Two is I don't feel I have to do something. Because if you see a screen of red in front of you, there's a kind of natural human desire to do something about it and, of course, if you don't turn on that screen of red or don't check your valuation, you haven't got that emotional issue to worry about.

Paul: [00:31:21] And as we know, or certainly I believe to be true based on the life that I've done in my study as a historian of financial markets, is that time is your friend if you are patient enough. What is it that Morgan Housel said? He said that volatility is the price you pay for being an investor. It's not the fees so much. It's the price you pay is volatility. So if you can try and third-party that volatility, say "That's the market's problem as opposed to my problem." I'm not going to get myself obsessed with the fact the market was down 2% or 4% or whatever, or go back to March. March is a great example last year when obviously the markets took a real nosedive. A bloodbath, actually. And a lot of people, honestly I expected them ...

Paul: 00:32:04 Friends of mine who are seasoned professionals, they were losing their nerve and they thought they were looking at the abyss. Now I swear to you I'm not saying this as a bit of a hindsight. I would say, "I don't know whether it's going to go up or down but you don't need the money for 20-30 years for this pension fund or your whatever it may be." If it's your product, well if it may be degenerational, it shouldn't matter. Let me be careful what I say because not everybody can afford to take losses on paper but let's assume they can. Then the last thing you want to do is start panicking out and actually some of the smarter ones, they put money into the market last April. Why? Because it was longterm money. They had patience on their side. They just felt it was undervalued.

Paul: 00:32:47 Now that's a sort of a typically scientific way of looking at any markets but it's a good human behavioral way of looking at markets and saying people are probably got too bearish in the short term. And then you see, the thing, Jim, that I really love studying, and I say this partly as a behavioralist and partly as a historian, certainly as an investor, is watching people trying to make sense of the world after it's happened. With hindsight, it's obviously, isn't it, why the market did this. And you laugh. You open a paper and it says the market fell .34% yesterday because of this and this. And I think to myself, well if it was that simple, tell me what's new tomorrow and next week we'll all be sitting on a yacht in Bermuda because we will be if it's that easy.

Paul: 00:33:35 It's a complex, often random thing, in the short term certainly. And it was actually one of your former interviewees, Morgan Housel, his excellent recent book, The Psychology of Money, which I think is a must read for everybody, particularly if they're a professional.

Jim: 00:33:52 Yeah.

Paul: 00:33:53 Because I think Morgan was kind of thinking he's writing for amateurs here and I think this is a book for professionals.

Jim: 00:33:59 Yep.

Paul: 00:34:00 Because, guess what. Professionals have the same emotions as amateurs. And this was, I think, the most interesting chapter in the whole book, and the whole book is brilliant, by the way, was chapter 17 which he calls The Seduction of Pessimism. And I never realized or never really thought about why people like bad news so much. Or why media if it bleeds it leads, the classic sort of headline generating concept for newspapers. And Housel gets it right. He says, and I'll just read this quote because I wanted to say because I try to tell people this and he puts it so beautifully. "It's easier to create a narrative around pessimism," he writes, "because the story pieces tend to be fresher and more recent. Optimistic narrative requires looking at a longer stretch of history and developments which people tend to forget and take more effort to piece together."

Paul: 00:34:53 Now I think that is absolute wisdom. I was joking with some friends on Twitter the other day. When the markets are pretty firm I said, "We have a bit of a headline that says Billions Wiped On The Shares." No, but you get billions wiped off shares the whole time. And again, it's a kind of craving, I suppose, again but it's fascinating that bad news sells so well. People naturally want to think about ... They want to read about pessimism and it's extraordinary to me. Again, I think if we ... What is it? Is it some sort of confirmation bias? I don't know. It probably is, actually. It's probably I'm worried about this, this, this, this, this. There's a little bit of news, grab it. I told you I was right. Confirmation bias. And sell whatever it be.

Paul: 00:35:51 I'm often asked, and I love music, popular music, rock music, soul music, everything. There is one line in popular music that is I think the best line ever about confirmation bias. Which, whenever I hear the song, I can't help but think about behavioral finance. And it's Simon and Garfunkel, "Still a man hears what he wants to hear and disregards the rest."

Jim: 00:36:18 The rest, yeah.

Paul: 00:36:19 Pure confirmation bias beautifully summed up in one line and I think confirmation bias is possibly in investment terms the most pernicious bias of a hundred or more biases that we allegedly suffer from. I've seen confirmation bias and probably the sunk cost fallacy, the idea being I put some money to something, hasn't done very well, I'll just put more money in blindly. I won't necessarily do a reevaluation or ask that amazing question, where could I be wrong? I'll just assume I'm still right, the market is wrong. Let's place more money in it. And, of course, that sort of sunk cost fallacies is very dangerous see it in investment. We certainly see it in politics all the time. We say it, dare I say, in wars.

Paul: 00:37:07 You might argue the Vietnam war was a sunk cost fallacy. It's not going well. We sent troops over. They died. I can't admit to the public we got it wrong. I'll send more troops over. And when I worked on the investment committee of and for pension schemes and when I a poacher turned game keeper now as we say in England, I've gone from one side of the fence, the poaching side, to the game keeping side so now I interview asset managers. Let me be quite sure. I'm not trying to catch anybody out here. I know that you're trying to do a good job. I'm trying to do my job. But there've been times when I've had an asset manager in front of me who's maybe bought a stock and it's gone down. That's going to be the theory, it went down say 20%. And I'm not trying to say, "You idiot [inaudible 00:37:57]."

Paul:	00:37:57	I'd never do that because I know there's enough noise and randomness in markets that sometimes things don't work out your way or the whole market could come down. But I'll say, "Look, do you still have faith in this stock?" And I'll try and work out have they reevaluated it, do they still like it? And they normally make a pretty good fist of it because hopefully the managers we employee are serious, sensible investors. I'm sure they are. But here's the issue. You can go a little bit further. You can say, "Right, so you like the stock. Would you consider buying some more?" So I'm just trying to get their attitude towards how much they like the stock. And obviously this is all subject to guidelines and all that so I'm just being theatrical here. And sometimes you can see they're nervous about buying more.
Paul:	00:38:40	But here's the question that really does sometimes produce some cognitive dissonance. You say, "If you had done the portfolio today, same sort of mandate, same sort of guidelines, setting up from scratch with new money, would you buy this stock today for the second portfolio?" Now, of course, they should say, "Yes, of course I would. It's 20% lower than I bought it before for portfolio A so why I wouldn't I buy it for portfolio B?" You'd be amazed, Jim, how much thinking and looking upwards there is. Would I buy it for portfolio now? And again, I'm not going to catch them out but in their own heads, what they're actually saying is, "Listen, I like this stock longterm, but I think [inaudible 00:39:16] more in the short term." That's what they're actually saying.
Paul:	00:39:19	And so the question might be, "Why the hell are you still holding it [inaudible 00:39:22] way then?" And all I'm trying to do is help them in a way with those sorts of questions to just check how much they do still like the stock at a lower price than when they bought it. This idea of book costs, it's a real mast that so many asset managers, and I include myself, by the way. This

is not us and them, this the industry. We tie ourselves to book costs all the time. We can't possibly sell something below our book cost, can we? It's like pride. And I think clients don't like having things sold below book costs. So again, it's not popular at any particular side of the industry but it's a human thing. And so we hope for a rally to get above our book cost so we can sell it to somebody else.

Paul: 00:40:04 And I see all these things all the time. I have done 30 years in the industry and these aren't some terrible sins, if you like. It doesn't make people a bad investor. It makes them human and the best investors, I think, somehow manage to become less emotional. And I know you're a big fan of the quant technique. I certainly agree that from a behaviorist point of view that's certainly very attractive. It won't surprise you to know that a lot of behavioral guys, we kind of like the idea of value. It's obviously had a very tough time in the last few years which makes me think it's probably not the time to give up on it now. Quite the opposite. But there are some that are giving up on the whole concept now and again. Definitions of value [inaudible 00:40:46]. They're slightly meaningless sometimes but as a sort of concept in think buying undervalued or unpopular or unfavored stocks should be a good longterm one if you're any good at your analysis.

Paul: 00:40:59 So that's pretty interesting to me for an investment point of view. I think the biggest influence on my own investment career, certainly for my own money ... And I kind of think the best investors I've seen follow this. It's, again, ancient wisdom. I think a lot of the good stuff is out there from long ago. It was Charles Ellis' concept of winning the loser's game. The investment for everybody in the whole marketplace after fees is a loser's game. It will be, by definition. And so what Ellis said was you've got to win the loser's game. You've got to be different. And he studied all these mutual funds. He wrote that original five-page paper or was it six pages, in 1975. This is as old as the hills. For most people the market's today.

Paul: 00:41:53 And looking at all the funds that there were after '75 and obviously he's updated it now with books in the '90s which he updates, I think, most years. It's the survivors that win. It's the ones that, he uses tennis matches, the ones that hit the ball back over the net and are there tomorrow and next week and next month and next year that win because lots of asset managers try and smash too much. They may get it right in the short term. They may do really well, have great numbers over one, two, three years. Fantastic, get to lots of assets, great stuff.

		But maybe they weren't as skilled as they thought. Maybe the inflow of assets actually changes their philosophy a bit.
Paul:	[00:42:29]()	Maybe they were lucky, let's not deny it. It could've been three years performance is nothing in the great scheme of things. And they can't smash the ball anymore. They can't send you aces. They start hitting the ball out over the back of the court. And meanwhile, the man or woman who's hitting the ball back every time just to stay in the game over five or 10 or 15 years is going to moving up the performance tables rapidly as others the world would start collapsing. And that's where, of course, winning the loser's game, you see it all over the place. You see it in flying aircraft and you know that phrase I like, there are old pilots and there are bold pilots but there are no old bold pilots. That's an investment mantra. There are old investors, there are bold investors, there really aren't many old bold investors.
Jim:	[00:43:15]()	Right.
Paul:	[00:43:17]()	And so that winning the loser's game concept I think is actually really important to remember. I'm not making a comment here about asset classes, you need to be in bonds and equities. Quite the opposite. I think equity is for long-termers. Still, I think history suggests not a bad place to be because you have time and patience, if you're lucky, to allow it to work. To allow in a capitalist system those earnings to come through and for prices or earnings to go up and so on and so forth. And, of course, the old clinkers about compounding. If you start compounding your dividends at the time, it sure makes a huge difference if you are a longterm investor. Jim Rogers said, compounding is the magic of investing.
Jim:	[00:44:01]()	Yep.
Paul:	[00:44:01]()	The investor's best friend, someone else said. The eighth wonder of the world certainly wasn't Einstein who said that but he's often quoted as saying it. So longterm patience compounding and trying to, in tennis terms, get the ball back.
Jim:	[00:44:15]()	Yeah.
Paul:	[00:44:16]()	And that I think is what clients want and that builds up over longterm, the trust I was talking about because the thing that would scare me most if I had a client who said they smashed the index last year by so much, assuming the index was a benchmark. And I'd say, "Good. Fine. Okay, go on. Yeah, yeah. Amazing." And then the next year, sure as [inaudible 00:44:42]

		you're going to see them underperform by something similar. Obviously not in every case but it does happen more often than it should do and it's because they're taking too much risk or they're trying to basically smash everything and obviously get the ball back. The big money is not in the buying and the selling but in the waiting, Charlie Munger.
Jim:	00:45:01	Yeah. And actually Jesse Livermore in-
Paul:	00:45:06	Yeah.
Jim:	00:45:06	... his fictional character said that in the book. Obviously I agree with you on all these points, I think, that Charlie's theme about playing a loser's game is a really good one. I haven't talked about that recently but when you're trying to win a loser's game, your whole objective should be to minimize mistakes.
Paul:	00:45:29	Yep.
Jim:	00:45:30	If you're playing a winner's game, you should, if you're a winner, if you're skilled at that game, you should be willing to take much more risks because they're very different games, a winner's game where talent and skill is going to win almost every time. Of course, there will be times it doesn't but on average in aggregate, that's true. Same as a loser's game. In aggregate, if you are trying to smash, as you put it, every time, you're going to lose because you are opening opportunities for failure, you're not trying to minimize your mistakes. One of the things you also touched on which I think is very, very important for people to understand is this idea of temporal discounting and temporal reframing.
Jim:	00:46:24	I think one of the things I've been fascinated by is with all this technology, wouldn't it be great if I could take a 30-year-old and age them and show them that changing because there actually are some programs that do that and the reactions are really fascinating. People first are very alarmed but secondly, it reframes them. It reframes them on understanding, "Gosh, I'm not going to need this money for 40 years." And that type of mindset is very different and usually, over time, much more successful because as the author, Ben Goodspeed, put it, so many of us confuse activity with effectiveness. And you made that mention earlier about looking at the market. I don't have a Bloomberg. People always look at me like I have three heads. I don't watch the market on a daily basis.

Jim:	00:47:29	Obviously my traders do because they have to. We're making investments or sales every day but I don't have to and so I don't. And it just inculcates in my opinion such a difference framework from which to work that you're putting the odds on your side rather than the other way around. You said your dad was an insurance broker before he opened his pub. When I try to break this down for people I often use insurance as an example. And I'll say to them, "Now, what if insurance people made decisions the way," as I love your phrase, "as the way real people make real decisions in the real world." What if the insurance companies made decisions that way? They'd go broke because what they do is they are entirely based on actuarial tables. And in aggregate that's going to work.
Jim:	00:48:34	It's one of the reasons why I'm a fan of base rates and quantitative investing. But imagine if your dad, instead of looking at the person's habits and health records, really decided that he just loved this chap. And yeah, I know here that your father died of a heart attack when he was 44 and that your grandfather died at 42, but you're just a positive guy, I'm going to give you that 10,000,000 pound life insurance packet. Well, it's very difficult for people to understand and I think that what you're getting at is really good because what you need to do to be successful, in my opinion, to help people, is to help them rethink, reframe, and recontextualize why they're investing in the first place.
Paul:	00:49:31	Yep, absolutely.
Jim:	00:49:33	One of the problems that I have, and I've actually written this, is that I'm a huge fan of behavioral biases and behavioral psychology but I begin to wonder, there's a lot of us talking about this and there's people like you, people like Rory with his brilliant book, people like Morgan with the passage. And Morgan's a friend of mine and wonderful guy and his book is in the stratosphere which I'm very happy it is and yet, are we learning? So there's a study that I found and actually include in some of my presentations, and it was looking at why are all these biases still around? And the title of it is, Why Do Individuals Exhibit Investment Biases? And it's my pinned tweet on Twitter. You can see the study itself.
Paul:	00:50:32	Yep.
Jim:	00:50:33	And the scary thing, they looked at identical twins and their investment behavior. And what the researchers basically concluded was 45% of biases are genetic and cannot be educated against. And I look at that and I just wonder. If it's

1970 and you're talking about behavioral finance, I'll grant you, you're probably going to be one of the only people talking about that. But now, Kahneman has a Nobel Prize. It is everywhere and everyone seems to be aware of it but it doesn't change. What are your thoughts on that, Paul?

Paul:	00:51:20	It's fascinating because you've summed up one of the frustrations that I had in my career when I was working in the corporate life. And it's interesting because whenever I was espousing the virtues of behavioral finance, the clients loved it. The clients all wanted to hear more and wanted to do it. And indeed the firms I was working for all liked it. The big question I was always asked was, "Okay, so what can you do about it, Paul? How can you," and I'll use this phrase monetize, "How can you monetize this great idea? Is there a product that we could have that would use it?"
Paul:	00:51:55	And, of course, we did try various things. We, the industry tried various things, and there were certain quant funds and again, the value funds as well could argue quite legitimately that they are trying to use behavioral finance techniques. And, of course, we know in the last few years those particular group of funds have suffered. And I was genuinely always concerned that it was an easy thing to talk about but a hard thing to implement with success because what's your line? Investment is simple but it's not easy.
Jim:	00:52:23	Right.
Paul:	00:52:24	The concept is simple but the actual practition of just doing it properly is hard. And I have to say that for all my career I was frustrated. I couldn't present something to a client that said here's my behavioral science offering. I think it's absolutely what we need. Interestingly, you asked earlier what I'm doing these days. One of the things I have become very excited about, I've discovered a company called Behaviour Lab. I think they're behaviourlab.com and I would recommend you look them up. For me as a behavioral junkie, this is the most exciting thing I've seen in my life because the CEO there is a lady called Magdalena Smith and she's ex-McKenzie, and actually ex-Goldman. I didn't know her Goldman at the time. And she's basically come up with ... She's raised a lot of capital.
Paul:	00:53:18	She's got a lot of staff working for her as well as software, a lot of analytics. And it looks at how quant finance is performed. She's got a lot of clients, building it up now. But it's not just a data thing where you just present it, these are your biases. This shows that you sold too early or bought too late, whatever it

may be. It's a lot more than that. There's huge amounts of the methodology behind is to look at actually what you're buying and selling habits are, and holding habits, buying, selling, and holding habits. Because those are the three things you can do with any money asset. And what she's come up with, and here's the thing, that being academic collaborations for Behaviour Lab with Kahneman talking about noise and Gary Klein who you probably know who's a bit of a rock star in this field.

Paul:	00:54:08	And so they work with either individuals or with teams, or indeed firms because sometimes this is a cultural bias that firms have, to analyze the trades. But it's not just about short term transactional trading. Again, this is about relationships. So why does that matter? What Behaviour Lab do is having sorted to what they believe to be your issues with ... One day there could be a Behaviour Lab screen on every portfolio manager's desk in the world like Bloomberg machine, I think. I think, based on what I've seen so far, it's that good. But then they'll also go in and help you and train you and work with you to understand the biases and I don't know if I like the phrase, they'll try and de-bias you which is why I found your comment that 45% of biases are genetic.
Paul:	00:54:59	That would concur with some of the things I've seen which let's just say that some of these are so systematic that even if you're the smartest most cleverest person in the world, you've still got them. Now why answer? And I think, again, something that you and I see on the same issues, evolutional biology, evolutional psychology, I think is one of the most important subjects you could ever, ever learn about. I did history at university. I love history. I think I needed history because I didn't know that evolutional psychology existed.
Jim:	00:55:29	Right.
Paul:	00:55:29	I would've done it because I certainly love it now. So what Behaviour Lab is trying to do is to take all these biases and help de-bias you with not just a software package but a lot more than that, more coaching and up to date. I'm exploring it at the moment and I think it's absolutely fascinating and I'm keen to learn more. Anyway, hopefully you'll have a look at it as well and see what you think.
Jim:	00:55:55	I definitely will. I think anything that assists people in understanding. And you just made the point which I want to underline. This affects all of us. If you think that you are the exception, you are wrong. A friend here sent me a little thing he was going to write up and he sent it to a bunch of money

managers, two questions. The first question was, what is your biggest behavioral bias? And then the second question was, and how do you solve it? So my answer was, "My biggest behavioral bias is that I am a human being. I solve it by being a quant." Now listen, I know that quant is not right for many, many people. That's another thing that I've always recommended after studying the things we're discussing right now. What people need, and Morgan, of course, would totally believe this and underline it.

Jim:	00:56:54	What you need is a process that is right for you as an individual. People always come to me and say, "Well, what should I do?" We don't deal much with end clients. We deal with the intermediaries in the advisor space. But sometimes I do speak with them and what you really find is that money and talking about money, which obviously investment is all about, speaking about understanding evolutionary psychology, I've said it's almost the last taboo. In other words, people will go on and on about their sex life but when you get to money it is such a third rail for people because, I think, we as human being can't help it. It's tied up with all of our strongest emotions, survival, making a way for our family. These are the deepest of our emotional both hopes and fears.
Jim:	00:58:01	And so I think the behaviorlab.com, I think that's a great idea. If we could figure out a way to coach people and improve, de-bias, as you put it, I think that would be really great. I still wonder how many people ... My friend Jason Zweig, who writes for the Wall Street Journal has a great little example of this. He goes, "You know, the problem with most asset managers is they show people a picture of a snake and say, 'Does this frighten you?' And the people look at it and they say, 'No, of course not.'" And Jason said, "That's the way most risk analysis is done. If you want to really know how they are going to react to risk, throw a living snake in their lap."
Paul:	00:58:51	Yep, yep.
Jim:	00:58:51	And it's back to your real people making real decisions in the real world.
Paul:	00:58:56	Yeah. And by the way, that example again is good because what you've done with that snake example is you've taken a concept on paper and you've then completely changed the perspective and showed it in real. And guess what? It's totally different. There's a quote I've heard many times, Alan Kay, "A change in perspective is worth 80 IQ points."

Jim:	00:59:17	Very true.
Paul:	00:59:17	If you can change your perspective ... Then again we talked about personal challenges or investment challenges or business challenges. If you can change your perspective sometimes you suddenly become a lot smarter. I think one thing is worth saying because I think in this whole behavioral science world that we get caught up in, too often I hear people talk about biases being obviously irrational so it makes me cringe a bit. And I'm more of a fan of the Gerd Gigerenzer school of thought which says that you can call them irrational if you like but be careful, they're there for good evolutionary reasons. And you talked about the bush rustling and you can either run away or get your spear. But you can ignore it and say it's just the wind and if something nasty with big teeth jumps out and kills you, that's the end of your DNA. If you think about it, that's actually totally and utterly ... That explains why loss aversion is such a powerful thing because the downside is much, much bigger than the upside. Downside, end of your DNA.
Jim:	01:00:17	Right.
Paul:	01:00:18	Upside is I'll live another day. I may find someone to mate with and produce offspring.
Jim:	01:00:23	Exactly.
Paul:	01:00:23	So it's got a very, very rational common sense, if you like, underpinning to it. The problem comes when you take it from a natural environment, and let's face it, we've been around for we can say 200,000 years as homo sapiens, 6,000,000 years since we split away from some of the great apes. But you take those, let's call them biases or heuristics if you like, the running away from the bush that could have something nasty in it. You take that loss aversion type bias and you then put it in artificial market like a financial market or the stock market where it's not the same upside and downside. You may think it is unconsciously but it's not a question of DNA and that. Then it appears irrational so I don't just jump in this by saying all biases are very bad and you've got to get ... You need to understand why you have them.
Paul:	01:01:24	And again, I think evolutionary biology provides a lot of, if not most of, the answers. And then you have to say so how irrational are they in the environment in which you are displaying them? And I think here's the thing about financial markets is that most of them look pretty irrational but only in that environment. They make sense in other environments.

Jim:	01:01:43	Right.
Paul:	01:01:44	And I think that's pretty important. I was at Schroders during the '90s and the massive great boom in all stock markets but led by the tech boom, or certainly late '90s. And obviously we can remember now all the companies that have done well with hindsight 20 years later. It's Amazon and [inaudible 01:02:06] and so and so forth. But for every one of those that did well and survived and indeed flourished and thrived, there were probably 10 that went bumpo but had a good run in their share prices in the late '90s and probably didn't exist a year or two later. Yeah, the classic sort of bandwagon effect. Now again, the bandwagon effect makes great sense in other environments but it's the natural environment, the ancestral environment, the Savannah. Call it what you will.
Paul:	01:02:33	You've seen the herds of wildebeests or the flocks of starling but put us in an artificial environment and lots of financial markets huddling together, copying what the other one's doing, it's going to end in tears as it did. And there's so many wonderful stories, wonderful in the sense of interesting anecdotes, not necessarily particularly happy ones for certain investors. But there's two or three that I often talk about. Norris Communications was a stock that used to make audio recording equipment. It was priced at six cents for a lot of the boom. It wasn't actually in the tech boom. It wasn't actually going up with tech stocks. And the management changed their name from Norris Communications that was kind of old fashioned and a bit 1980s to E.Digital and in those days E was what I is now.
Jim:	01:03:19	Right, right.
Paul:	01:03:19	Everyone wanted Es and in more ways than one in the late '90s. And E.Digital went up from six cents to 16 cents to 60 cents to \$6 to \$16 and peaked at \$24.50. Nothing changed apart from the name. There were no results came out. It was obviously [inaudible 01:03:36] bulletin boards in those days. It went up on the name because someone said, "Oh, there's a new tech stock in town. It's called E.Digital." Very up it came, buy, buy, buy, buy, buy. And then, of course, down it came and it doesn't exist now. The Superbowl, in 2000 there were 17 dot-com companies in halftime, paid \$2,000,000 bucks to advertise their tech solution in the middle of the Superbowl. That was Superbowl XXXIV. In 2001, Superbowl XXXV, of the 17 there were only three left advertising. Things change so rapidly.
Paul:	01:04:15	Obviously in the year of COVID that sounds like it's so obvious but they're changing all the time and it's a random, crazy,

complex place and yet here we are. Here are a lot of people trying to make hard and fast linear rules and the world is not linear. I was talking about hindsight bias because there are some great examples. In the markets obviously we have to make sense of the world, try to understand why the markets did this, this, this. We mentioned this earlier, give the simple reasons why. But if you think about it, if at every single point in time there's probably 10, 100, 1,000 ways it could go. And then every point after that there's 1,000 ways, a huge maze of ways. But when we look back we just see one line going all the way back to where it was and that could be a chart of its share price.

Paul:	01:05:01	We just see one line but there's so many ways you could've gone. And yet, with hindsight we're all experts. We create the narrative to make sense of the world and the problem with that, I think, Jim, is that once you start creating all these narratives to make sense of the world, you think you can forecast because you're looking back at linear stuff. But again, the forecasting involves all these multiple mazes and options that could happen. I'm a great fan of Philip Tetlock's work exposing the fact that lots of these so-called experts and lots of talking heads on the media, those sound birds. And indeed I listen to them. I'm like, "He's smart. She's smart. That makes sense." But actually you look at their track record, most people aren't particularly good at forecasting, certainly not macro economics.
Paul:	01:05:49	It's a very tough thing to do and the heady comments to the LECD in June 2007 said we think the outlook's very benign months before the world fell into itself and we had the worse depression since the '20s, since the '30s. It's not easy. It sounds like I'm being cynical. I'm only being cynical of those that say forecasting is simple, easy. It's not. It's incredibly difficult. The example I love most of all hindsight bias, and I often do this in my talks. Until COVID I was doing 40 to 50 public talks a year for asset managers. But also I was actually working for the doctors, barristers. What I found with behavioral science is wonderful. I don't just confine myself to the financial industry now and I'm getting all sorts of places I can speak about.
Paul:	01:06:38	And as I say, 40 to 50 talks a year. And I loved it. When I would talk to say a bunch of doctors, they would love financial examples. Talk to a bunch of financial people, they loved the medical examples.
Jim:	01:06:52	Yep.
Paul:	01:06:52	So this huge amount of cross fertilization I'm getting. Back to my point about growing up in a pub, you get all sorts of inputs and

		it's fantastic. And to this day my favorite hindsight bias example, and I stand on stage and I hold up ... You can see me on camera but the listeners can't and I'm holding a pencil. And this was a pencil that was handed out to thousands of New York kids a few years ago and the idea being was, I think they were six to 12 years olds. They would give all these kids a pencil that had a message on them that they hoped would subliminally influence the kids' behavior.
Paul:	01:07:28	And the pencil says, "Too Cool To Do Drugs." So they gave all these kids pencils saying "Too Cool To Do Drugs," thinking ... You can imagine a committee, a group thinking good idea, good idea, good idea. Some committee saying great, get the pencils printed and get them out there, out to schools now. And, of course, about two or three weeks later after the kids had been using the pencils, one of the teachers went up to a teacher and said, "Miss, look at the message on my pencil." And, of course, after they had used the pencil they had worn down and it started eliminating one of the words and now the message was "Cool To Do Drugs."
Jim:	01:08:05	Yep.
Paul:	01:08:07	Keep using the pencil, it says just, "Do Drugs." Keep using the pencil, it just says "Drugs." Now, it's a great story because with hindsight bias, it's obvious it's a bloody silly idea. It's a funny idea with hindsight but it's a bloody silly idea.
Jim:	01:08:24	Right.
Paul:	01:08:24	But at the time you can imagine though, thinking what a smart idea. We'll get these pencils out and, as I say, committee agreeing to it and everything else. So, classic hindsight bias. Once you see it, you think, "How could anybody be that stupid to fall for it"? Until you know about it, it probably sounds like what an idea and I think a lot of investment stuff obviously appears like that. We're experts after the event but it's pretty difficult before the event to predict what's going to happen.
Jim:	01:08:51	Yeah.
Paul:	01:08:51	So, anyway, I had something to ask you.
Jim:	01:08:54	Arthur Kessler had a great line which was, "The more profound a discovery, the more obvious it appears afterwards." And I think that that's what you're getting at as well with the hindsight bias and you touched on another important thing that

		listeners should really take to heart which is, hindsight bias makes you think now that it's easy to see things happening because after the fact they're obvious. You really need to understand that that is the wrong way to look at things because I often say we are deterministic thinkers living in a probabilistic universe and we don't aggregate anything.
Jim:	01:09:41	We do what my friend Annie Duke calls resulting. In other words, we look at one decision at a time and say, "That was a bad decision. That was a good decision." Instead, what we should do is aggregate all of these choices and decisions and say, "On balance, good, bad, or neutral." But we don't do that so I have to append that line with the idea of being deterministic thinkers in a probabilistic world with hilarity often ensues. And I think your example with the pencil is great because it's something and I loved ... I'm going to steal that from you. I hope you don't mind.
Paul:	01:10:22	I'll send you a ... And I order these by the bulk now. I use them as giveaways in my talks.
Jim:	01:10:28	Fantastic, fantastic.
Paul:	01:10:30	And so there's lots of Too Cool To Do Drugs pencils having a second go at the world population.
Jim:	01:10:35	Sure, thank you.
Paul:	01:10:37	I also have my website on there, www.paulcraven.com.
Jim:	01:10:40	I hope that's at the stub end of the pencil.
Paul:	01:10:44	You've got to use the pencil a long way to get rid of the website, that's for certain.
Jim:	01:10:48	Well, you are temporally rearranging people's mind share so that's a good idea.
Paul:	01:10:55	Just a general point, though, Jim, about the whole industry because again one of the issues with behavioral science is there's lots of fun examples. It's a fun subject but it's a deadly serious subject and again, I'm sometimes nervous when I'm on the stage and people just think it's a bit of fun. And I try and bring them back to that and then seriously millions of dollars are lost because of these sorts of errors and people suffer if you [inaudible 01:11:20] them. I think it is worth reiterating it's a really serious point, though. Investment matters, and I loved

your example earlier where you said, "Look, far from trying to tell a 20-year-old to save, just think about that if most of their life they get married, have kids maybe, mortgage, car, and then daresay you will retire one day, hopefully.

Paul:	01:11:47	You'll need money then, holidays, vacations, and try and put it in those kind of narrative pictorial terms because it's got to be, I think, more emotionally necessary to save rather than just think, "Oh, I must save some money because when I get older I'll need it." And I think there's milestones and, in fact, I've been working with some companies about how to better promote some of their savings products and we're very much working with things like that. Here's an interesting thought for you, though. You had Rory Sullivan locally on your show recently. This is a thing he and I talked about quite a lot. Why do all creative companies have finance departments and all financial companies have creative departments?
Jim:	01:12:34	Right.
Paul:	01:12:34	Who's paid down to sit down and think, and sometimes think wacky crazy thoughts? Because you know what it's like, it's like the Rory's waggling bees that fly off in the wrong direction to the honey fields. Why, because you want to send a few of them out there to find potentially new stuff, not just send everyone the same way.
Jim:	01:12:51	Right.
Paul:	01:12:52	And isn't that kind of the thing that good investors should be doing or good asset management firms should be doing is occasionally trying to be a bit more creative. And I think if I have one slight regret, and I blame myself for this as much as anybody. It's not a pop at anybody or any firm. It's I think the financial industry, it's very good at creating new products. Sometimes probably too complex, I suspect looking back through history, but I don't think we're always as creative as other industries in terms of just the way we think about things and the way we, again back to our first topic, reframe things. The way we contextualize things, particularly when it comes to saving and investment. And it is something that I do worry about actually is that we do, I think, as an industry we do tend to confuse the public.
Paul:	01:13:38	And I'll tell you why we do because I think we quite like complexity. We like to appear knowledgeable and intelligent which in the most cases many people are but it is a complex world, money. And it does have a lot of jargon and one of the

things that I always try to do and I certainly tried to do this when I worked for a fixed income manager because fixed income isn't naturally as easy to understand, certainly in the U.K. in which I worked. Actually people tend to understand shares better than bonds or certainly they did back in the early 2000s. They've got much better recently. Is to try and keep it simple and try and explain that you're just trying to hit the ball back basically. And you're not trying to shoot the lights out and the trees don't go to the sky with the bonds.

Paul: 01:14:28 Obviously bonds is very good in one way because it's easy to explain the downside of the corporate bond is 80-90 cents on the dollar. Upside maybe 10 cents. Now once people get that mindset, it's actually a very different mindset to the equities where they think there's a big upside, trees go to the sky kind of thing. You may know the famous story about the CIO that once had to give an update on the firm's results and he went into the room and he saw all the analysts there waiting with their notepads in those days, and he noticed that there was one bunch over here who were the smiling casual laid back ones and there was one bunch over there much more geeky, nervous, more introverted.

Paul: 01:15:12 And he said, "Oh, you lot must be the bond investors, the bond analysts, and you lot must be the equity analysts. And they laughed and said, "How do you know that?" And he said, "Because you're here for different reasons." And they said, "What do you mean?" And he said, "Look, if I say to you, the equity investors, one word. You have a different interpretation that if I say the same word to the other lot." And they said, "What word is it?" He said, "Flowers." He said, "You don't think of weddings and you don't think of funerals." Right?

Jim: 01:15:40 That's great.

Paul: 01:15:43 And it's funny because you think that makes sense where the bond analysts worry about cashflow more than the equity analysts worry about earnings. I'm simplifying things but again, it's about this idea of just reframing the whole thing. And again, making sure that people know what they're investing in. I knew the chairman of trustees quite well. We had an investment meeting when I was working for an asset manager. And there were quite a lot of new trustees around the table and we had to go and do a presentation for existing business. And I took in with me one of those obviously asset manager presenting with the portfolio manager, one of those, in the old days they had hotel bells. We used to go into a small hotel in Britain and bang a bell, clang.

Jim:	01:16:31	Same here.
Paul:	01:16:32	And I went in and we got the presentation and I gave the chairman of trustees, I said, "Here's the bell." He said, "What's this?" I said, "It's called a jargon bell." I literally came up with the idea and I said, "It's a jargon bell. If one of us uses a piece of financial language, jargon, you don't understand, you ring that bell." I said I want one life. Every time it rings after the one life we've had we'll pay 10 pounds to your charity."
Jim:	01:16:57	Fantastic.
Paul:	01:16:58	And you could see he was itching to ring it the whole time and, of course, we'd rehearsed it well. That bell never rang. But here's the point, though. The trustees afterwards told us it was one of the best presentations they've ever had because they understood everything. And it's not like we go in there as an issue to try and fool our clients. Quite the opposite, we're trying to explain, but we don't realize that we are so well versed in our own language, abbreviations, jargon that the ordinary person, however sophisticated that he or she might be, may not be able to keep up with us as quickly. So we made this up. Anyway, the jargon bell became a bit of a legend in the office but it works. And again, it's a reminder that real people make real decisions in the real world maybe differently that the way that we financial people are throwing things down their throat.
Jim:	01:17:44	Fantastic. Fantastic example and a wonderful one to end on. I can't believe that we've already been going for almost an hour and 20 minutes. This has been absolutely fascinating. Paul, we always ask our guests this final question, which is kind of fun, and as a behavioral guy I think you're going to enjoy it. And that is this, if magic existed and we could wave a wand and make you, Paul Craven, the emperor for a day of the world.
Paul:	01:18:17	Right.
Jim:	01:18:17	Now you can't kill anyone, that's our first thing. You can't sentence people to exile or whatever. But what you can do is you can suggest two things that people will immediately say, "Oh, I'm going to do that." So you can suggest two things that people would comply with. What do you have for us?
Paul:	01:18:45	Okay. Number one, I think there's a psychologist called Anthony Clare, Dr. Anthony Clare, last year on the radio and he came up with six ways you can improve your life. They all impressed me but the one that I think would be really important in terms of if

everyone could do this the world would be a lot better. He said, "Cultivate a passion or a pastime." So hobby. It could be chess. It could be exercise, playing golf. It could be reading. Just something that you care about and really love. This is about doing something you enjoy. You might be interested in classical civilization or anything.

Paul: 01:19:32 And I thought, to what sort of extent would he expect you to do it. I mentioned I love magic and I love hickory golf. Those are two of my big passions outside of work. But it could be almost anything really. And often my kids when they were growing up, I would annoy them. I'd say, "Guys, could you stand up in a public arena and talk for 20 minutes on one particular subject?" Because if you can you're way ahead of most of the world. You probably couldn't. And, of course, if you cultivate a passion or a pastime, whatever it may be, and you could then speak for 20 minutes on it to an audience-

Jim: 01:20:10 Right.

Paul: 01:20:10 And I think that would give you a big advantage in life in terms of confidence. But above all else, having a passion or a pastime, it's a great way of winding down from the stresses and strains of your day-to-day job. Now I'm lucky because I don't work quite as hard as I used to do when I was working for the firms but I still appreciate downtime and in my downtime I'd rather do something like practice a new magic trick or play hickory golf because it just clears my mind and I just feel so, so good after. And a book recommendation I couldn't recommend highly enough, and I'm sure you've read it, is a book by David Epstein called Range.

Jim: 01:20:47 Yeah.

Paul: 01:20:47 And if you haven't read it, listeners, get it because I won't say any more about it than say what Epstein recommends is anybody who could be more of a polymath enough of a specialist actually probably gives themselves an advantage in many, many ways in their life. Don't just try and be the best at one thing. If you can do a few things, and that might include having a passion or a hobby or a pastime, the world's a better place. That would be my number one.

Paul: 01:21:14 And if you wanted a second one, Jim. I would go back to a phrase that my late Uncle Richard used to say a lot. And Richard unfortunately died a couple months ago and I was very close to him.

Jim:	01:21:28	I'm sorry.
Paul:	01:21:29	And he would often do just random acts of kindness. He would just do sort of strange, weird, wonderful things. And he used to have this phrase. He'd say, "It's nice to be nice." And when I look at some of the arguments on social media or in politics generally, it's so much polarization, so much hostility, so much viciousness and vileness. And most people, not to note the radicals at either end of any argument, but most people are pretty decent. We can have a chat, a cup of coffee, a glass of wine, whatever may be and get on pretty well discussing most things. But the moment you start polarizing over one issue, it becomes a pretty hostile nasty place so it's nice to be nice. And I think that those two would be pretty good. Cultivate a passion. Cultivate a pastime or passion and it's nice to be nice.
Jim:	01:22:21	Terrific. I love both examples, Paul. I'm sorry to hear about your uncle's death. I love people like that because we've been continually talking about reframing. He's reframing people by that and it works. It works really, really well.
Paul:	01:22:56	Thank you. Our website is www.paulcraven.com and my Twitter handle is @CravenPartners.
Jim:	01:23:04	Perfect, easy. Paul, this has been a true pleasure thank you so much.
Paul:	01:23:10	Thank you very much indeed. And thanks such.
Jim:	01:23:13	Cheers.
Paul:	01:23:14	Cheerio.