COB Review by Austin Spencer

Title: “Your Money and Your Brain”
Author: Jason Zweig
Publisher: Simon & Schuster
Length: 270 pages
Reading time: 10 hours
Reading rating 4 (1= very hard, 10= very easy)
Overall rating: 2 (1=average, 4=outstanding)

Reading “Your Money and Your Brain” may be a frustrating experience. While Jason Zweig’s book is full of interesting short commentaries on human behavior the separate commentaries fall short of building a coherent presentation on the behavior of the individual investor. Zweig asserts that human behavior is explained by two independent forces. One component is concerned with reflexive behavior, our instinctive response to the world around us. The second complementary component is concerned with the reflective nature of man, the active rational thinker. The interplay of these two dimensions of our behavior often results in the investor behaving in a sub-optimal manner and seriously constrains his investment returns. Zweig packages and brands his approach with the term neuro-economics. This new field of study combines neuroscience, economics, and psychology. The purpose of this approach is to make you aware of what really makes you tick. He concludes that the casual observer would conclude that many of the investor’s decisions make no logical sense but rather appear to be based on purely emotional variables.

Zweig argues that we are programmed to crave whatever feels likely to be rewarding and shun what seems risky. When the market price goes down our instinctive behavior may cause us to sell when on reflection we conclude that the asset we own is an even better investment now than it was originally. When this scenario plays out in the market how many investors will employ reflective behavior? Not many.

Zweig argues that the individual investor needs to remember that investing requires one to use data from the past and hunches in the present about risks and rewards you will harvest in the future—filling you with feelings like hope, greed, cockiness, surprise, fear, panic, regret, and happiness. If you are going to be successful over time you must cage the instinctive component to your behavior and allow the reflective mind (the rational man) to emerge. You aren’t likely to succeed unless you read this book very slowly and reflect on the emotional variables that influence your behavior. The task you face is to become acquainted with each of the commentaries and gradually build up your immunity and avoid behaving in a reflexive manner. Will you be
successful? Good luck. My advice: read this book one commentary at a time and allow your immune system to adjust.

Austin Spencer is a Professor of Finance in the College of Business at Western Carolina University. His research interests include topics related to financial institutions and financial markets. For previous reviewed books, visit our web site at www.wcu.edu/cob/. 