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The Laws Of Wealth: Psychology And The Secret To Investing Success



Synopsis

From New York Times and USA Today bestselling author, Dr Daniel Crosby, comes the behavioral finance book all investors have been waiting for. In *The Laws of Wealth*, psychologist and behavioral finance expert Daniel Crosby offers an accessible and applied take on a discipline that has long tended toward theory at the expense of the practical. Readers are treated to real, actionable guidance as the promise of behavioral finance is realised and practical applications for everyday investors are delivered. Crosby presents a framework of timeless principles for managing your behavior and your investing process. He begins by outlining ten rules that are the hallmarks of good investor behavior, including 'Forecasting is for Weathermen' and 'If You're Excited, It's Probably a Bad Idea'. He then goes on to introduce a unique new taxonomy of behavioral investment risk that will enable investors and academics alike to understand behavioral risk in a newly coherent and complete way. From here, attention turns to the four ways in which behavioral risk can be combatted and the five equity selection methods investors should harness to take advantage of behaviorally-induced opportunities in the stock market. Throughout, readers are treated to anecdotes, research and graphics that illustrate the lessons in memorable ways. And in highly valuable 'What now?' summaries at the end of each chapter, Crosby provides clear, concise direction on what investors should think, ask and do to benefit from the behavioral research. Dr. Crosby's training as a clinical psychologist and work as an asset manager provide a unique vantage and result in a book that breaks new ground in behavioral finance. You need to follow the laws of wealth to manage your behavior and improve your investing process!

Book Information

File Size: 2238 KB

Print Length: 304 pages

Publisher: Harriman House; 1 edition (June 27, 2016)

Publication Date: June 27, 2016

Language: English

ASIN: B01E5WK3A

Text-to-Speech: Enabled

X-Ray: Not Enabled

Word Wise: Enabled

Lending: Not Enabled

Enhanced Typesetting: Not Enabled

Best Sellers Rank: #156,502 Paid in Kindle Store (See Top 100 Paid in Kindle Store) #53
inÂ Books > Business & Money > Finance > Wealth Management #99 inÂ Kindle Store > Kindle eBooks > Health, Fitness & Dieting > Counseling & Psychology > Applied Psychology #114
inÂ Kindle Store > Kindle eBooks > Business & Money > Investing > Stocks

Customer Reviews

Full disclosure: I know the author, was thanked in the acknowledgements, and my work was quoted in the book. There are many things we cannot control in the world of investing. In the Laws of Wealth, Dr. Crosby makes a compelling argument for what we can control â “ our own behavior â “ may be the most important aspect of all in determining the long-term success of our financial plans. A psychologist by training, Dr. Crosby lays a foundation of evidence that the behavioral shortcuts we use to make our every day lives more efficient actually cripple our ability to be successful investors. While this foundation is built by the thorough citation of academic studies, it is illustrated with entertaining anecdotes. Perhaps that is what makes this book so great. It never feels like a dry recitation of prior work. Dr. Crosby expertly weaves into the academic basis interesting quotes from practitioners and compelling narratives that entertain and educate. The first half the book lays out Dr. Crosbyâ ™s 10 laws of wealth, each rule crafted to help address and combat a unique behavioral bias. The basis for the rules themselves are discussed at length with a surprisingly cross-disciplinary approach: a citation of a seminal behavioral finance paper may be sandwiched between a pop-culture reference and the results of a highly quantitative study. Chapters are finished with a highly practical three point summary, laying out what we should think, ask, and do as a result of what we just learned. The second half of the book outlines why misbehavior may actually be opportunity for prudent investors.

This is something as unusual as a practical book on behavioral finance. Where the discipline for too long has focused on disproving the so-called Modern Portfolio Theory and listing psychological quirks among investors, Daniel Crosby takes things one well needed step further and applies the theories on real life investing. The stated aim of Crosby â “ a psychologist by training that today is an asset manager and a well sought after speaker on behavioral finance â “ is to make the reader wealthier. The target audience is private investors and the thesis of Crosby is that knowing the behavioral investment traps will not help you to become a better investor. Since they are hard-coded in our brains an investor cannot escape them simply by knowledge and will power. Instead the investor like Odysseus must tie himself to the mast and construct rules that protect him from himself.

and by doing this he will fair much better than other investors that either don't know their behavioral biases or haven't shown the rigor to construct and follow such rules. Rules eat knowledge for breakfast to paraphrase Peter Drucker. I agree full heartedly with the thesis. There are two main parts to the book. In the first 10 guidelines for behavioral self-management are presented. This is where the reader gets to acquaint himself with the psychological traps through a number of short chapters with names like If You're Exited, It's a Bad Idea, You Are Not Special or Forecasting Is For Weathermen. A consistent theme through this first part is that the world of investing is very special as most actions that are intuitive and work in other contexts actually lead the investor astray on the stock market. The human psyche is badly equipped to handle investments.

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