

NEW SERIES

# Show Me the **MONEY**

BOOK 4

Ideas and Philosophies to Navigate  
Life and the Markets



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## 12 A PAY PACKET PERSPECTIVE

*In a world filled with adulation – and envy – for high pay, what is it that determines a person's salary? And shouldn't spiritual leaders also draw a big pay cheque?*

3 September 2011

A group of six of my friends gather every month to discuss a topic of our choice. The discussion topics can meander from personal to intellectual to philosophical to spiritual. Last week's topic was on Buddhism and Money, which was a continuation of the Money and Me topic from the month before.

One friend started the conversation by making the observation that since money was introduced as a medium of exchange for goods, people today have less appreciation for those who actually produce the goods that we are enjoying.

Compare that to the olden days of barter trade. People then knew it was so-and-so who reared the cow whose milk they were drinking. And that cow owner knew it was that family two miles away who, say, stitched together the clothes that he was wearing. Consumers had a sense of how much hard work had been put into producing the goods.

Money as a medium of exchange depersonalised the trading of goods. By the same token, the producers of goods – since they have no idea who will end up consuming their goods – may feel less personal responsibility in ensuring that the goods they produce are safe for consumption.

That's where ethics, government rules and regulations, and the discipline of the market economy for those who want to have a long-term business come in and play a role to ensure safety and good quality.

So is there a better way to organise our economies than the current capitalist system? Someone said that what we get, say a house, should be based on needs, not on who can pay for it. That of course would open up a whole host of new problems such as who decides who needs the goods most, who decides how many of those goods to produce in the first place, etc. Perhaps a predominantly market-driven structure at the moment is still the best there is out there.

Next, the question veered to pay. It started with pay for spiritual leaders. Why do we balk at the idea of spiritual leaders being rewarded with a massive amount of money and leading a luxurious life? Why do we assume that spiritual people shouldn't be motivated by money?



## 20 COMPOUNDING – IN LIFE AND IN INVESTMENTS

***Not all better-skilled people or products would come out ahead, luck plays a part too***

5 January 2013

We all know about the power of compounding in investments. Let's say A and C start with \$10,000 each. If A can make her \$10,000 grow by 15 per cent a year, and then redeploy the bigger pot to grow by another 15 per cent the next year, by the end of 30 years, that \$10,000 would have grown to \$662,000.

Contrast that with C, who manages to grow her pot by just 5 per cent a year. By the end of 30 years, that \$10,000 would have grown to only \$43,000 – that's just 6 per cent of A's, even though they started off at the same level.

As with compounding that occurs in investing, in life too the effect of compounding plays a big part. The compounding in life can take place as a result of our decisions, or it can be due to circumstances beyond our control. In other words, luck plays a role and, over time, the small break one gets because of luck is compounded over time to result in a wide gap between two persons who may start off at the same position.

According to Michael Mauboussin, author of *The Success Equation: Untangling Skill and Luck in Business, Sports, and Investing*, the process of social influence and cumulative advantage frequently generates a distribution that is best described by a power law. According to him, an astonishingly diverse range of socially driven phenomena follow power laws, including the rank and number of book sales, the rank and frequency of citations for scientific papers, the rank and number of deaths in acts of terrorism, and the rank and deaths in war.

The example which he plotted in his book is the rank of US cities and the population size. The power law demonstrates the phenomenon of success attracts success. It's a winner takes all model. A popular singer gets more popular because of more radio time, and her fans will influence their friends to become fans.

One of the key features of distributions that follow a power law is that there are very few large values and lots of small values. This set me thinking. That sort of describes the distribution of stocks listed on the Singapore Exchange – there are a few very big companies, and there are a lot of small companies.

## 31 DON'T BE AFRAID TO BE A CONTRARIAN

12 April 2008

Catherine Genovese had driven home to the Kew Gardens section of Queens, New York, early on 13 March 1964. Arriving home at about 3:15am and parking about 30 metres from her apartment, she was attacked by Winston Moseley.

Genovese tried to run but was caught by her assailant who stabbed her twice in the back. When Genovese screamed out, "Oh my god, he stabbed me! Help me!" several neighbours heard and rushed outside. When one of them shouted at the attacker, "Leave that girl alone!" Moseley ran off and Genovese slowly made her way towards her apartment. She was seriously injured.

Some witnesses saw Moseley enter his car and drive away, only to return 10 minutes later. He found Genovese, who was lying, barely conscious, in a hallway at the back of the building she lived in. He then attacked her again, stabbing her several more times.

While she lay dying, he sexually assaulted her. He stole about US\$49 from her and left her dying in the hallway. The attacks lasted about half an hour. According to one report, during Moseley's last attack in the hallway, a neighbour just up the stairs opened his door and watched what was going on without doing anything to stop the attacker.

A few minutes after the final attack, a witness called the police. Police and medical personnel arrived within minutes of the call. Genovese was taken away by ambulance and died on the way to hospital.

The metropolitan editor of *The Times*, AM Rosenthal, happened to have lunch with the city police commissioner a week later. He asked the commissioner about a different Queens-based homicide, and the commissioner, thinking he was being questioned about the Genovese case, told of the long and public attack on Genovese. None of those who saw the attack take place bothered to call the police, he was told.

Mr Rosenthal then assigned a reporter to investigate the "bystander angle" of the incident. Within a week, *The Times* published a long, front-page article. The initial paragraphs of the report ran like this: "For more than half an hour 38 respectable, law-abiding citizens in Queens watched a killer stalk and stab a woman in three separate attacks in Kew Gardens.

"Twice the sound of their voices and the sudden glow of their bedroom

## 36 “TEMPERAMENT DETERMINES A PERSON’S FATE”

*Mood dictates behaviours in markets and that in turn is decided by biochemical messengers in the body*

13 April 2013

I noticed lately that whenever I watch a movie, there is always one line in it that strikes a chord with me. In *Cloud Atlas*, that line was: “Our lives are not our own. From womb to tomb, we are bound to others. Past and present. And by each crime and every kindness, we birth our future.”

In Oscar-winning *Argo*, it was something along the lines of: “If you want to tell a lie and you want the whole world to believe it, get a newspaper to print it.”

This week, I watched *Saving General Yang*, out of boredom more than anything else. And the line which spoke to me was: “A person’s temperament determines his or her fate.” It was uttered by General Yang to console his sixth son that his younger brother’s death was not his fault. The seventh brother was impetuous, said General Yang. His rashness caused his demise.

There have been quite a lot of serendipitous events lately. I thought of someone, and she appeared at my doorstep, literally. I texted someone, and he said he was just thinking about the thing that I was texting him about. And I decided to watch *Saving General Yang* at the spur of the moment and it just so happened to contain a line which captures what I have been thinking about this week. I’ve been thinking why different people, when exposed to the same stimulus, would react, or choose to react differently. That thought was planted in my head after I read the article “The Biological Investor” in the CFA magazine.

But first, let’s backtrack a little.

### **The marshmallow experiment**

In the late 1960s and early 1970s, psychologist Walter Mischel conducted what is now known as the Stanford marshmallow experiment. In a series of studies, a child was offered a choice between one small reward (sometimes a marshmallow, but often a cookie or a pretzel, etc) provided immediately, or two small rewards if he or she waited until the experimenter returned (after an absence of approximately 15 minutes).

Of more than 600 children who took part in the experiment, a minority ate the marshmallow immediately. Of those who attempted to delay, one-third