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Investing in communicating about investing

Prof Jack Gray | UTS | 21 July 2014

As investment professionals, we live investing every day. But for most people, investing is an episodic concern triggered by a desire to better understand a report or a (likely unexplainable) event. Most seek re-assurance, certainty (unrealistic levels thereof), confidence (unrealistic levels thereof) and comfort, in addition to the analytic and rational explanations we provide.

Their desires and interests parallel ours in medicine. Episodically, we seek re-assurance, certainty (unrealistic levels thereof), confidence (unrealistic levels thereof), comfort and rational explanations from medical professionals, typically triggered by a report or by a (likely unexplainable) event. Few doctors are sufficiently sensitive to our anxiety and ignorance, for they too are trained to see their discipline as more scientific than it is, and to pretend it's more certain than it is. Few take the time and effort to explain the whats, whys, hows and risks in honest, jargon-lite, non-patronising ways that connect to our minimal levels of understanding and our emotional configuration.

We investment professionals are selected (and trained) in part, based on our ability to reason quantitatively, analytically and rationally, consistent with the paradigm that investing is broadly 'scientific'. Like all experts, we communicate to each-other via jargon, based on presumed levels of understanding. That imposes a language barrier to communicating to outsiders. Although good advisers overcome that challenge, we all need to improve. This is what www.bettermarkets.com is doing by explaining the "needlessly complex and arcane world of financial markets, demystifying it... by promoting a 'plain English' standard... and by deciph[ering] the highly specialised language of finance..."

A more difficult challenge is communicating with people whose patterns of thought differ from those we've absorbed through training and experience. Think: social workers, designers, etc - people who may be exceptionally intelligent yet struggle to comprehend analytic and especially quantitative concepts.

Even insiders are not always convinced by analytic and rational reasoning. One world-renowned investor begins with supposedly obvious axioms and uses supposedly strict logic to draw supposedly ineluctable conclusions about investment opportunities. I can fault neither his axioms nor his logic. Yes, I'm frequently left with a nagging scepticism about the veracity of his conclusions, with an intuitive sense that investment markets are too fuzzy and too uncertain to justify and sustain his rigour or his inferences. He fails to persuade me of his whats, whys and hows. Even worse, as a client, I am irritated by his disinterest in my being lost or remaining unconvinced, by him ignoring my different patterns of thought and

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lesser levels of understanding (especially when he thrusts into macroeconomics.) *Pro forma* he does ask for questions - but for the familiar troika of reasons, I rarely volunteer. First, at times, my ignorance is so complete I can't even formulate a question. Second, all too often, I'm reticent to reveal (too much) ignorance in front of peers. Third, too readily, I meekly accept a ubiquitous power relativity - if A explains something to B and B doesn't understand, the agreed if unspoken presumption is that it's B's fault. It is B who has to "do the work" to understand - and, confronted by A's power (aka knowledge), B accepts his lower status. Of course, B should do the work. But A too has a responsibility to "do the work", to explain better, to find other ways to effectively communicate with B. That re-orientation is surely a more appropriate allocation of responsibilities.

Like this expert, we too spend excessive time reporting and not enough 'rapporting.' Medical imaging reveals how blood-flows to components of the brain responsible for understanding are greater when conversing than when reading. Conversing provides the base for rapport, for reading the subtle cognitive and emotive signals we humans use to communicate effectively. My early learning about investing was guided by a stereotypical actuary to whom understanding and hence communication was a coldly logical and rational process. So much so, that he imposed an absurdly rigid rule - he would explain something once, twice, but never a third time. He was immune to my cries for help (especially when abandoned after two attempts), to the pain of learning, to my emotions, to my feelings of fear, distrust and inadequacy. Yet, even investment managers and actuaries whose patterns of thought are deeply embedded in analytic and logical frameworks express themselves in affective and emotional language, as evident in the 2012 CFA report, Fund Management: An Emotional Finance Perspective.

Crucially, communicating effectively, in ways that connect with a client's depth of understanding and emotional state builds trust, something profoundly lacking in our industry. A recent survey across 30 countries asked people which of 15 industry sectors they trusted. Finance ranked dead last; only 50% said they trusted it (i.e. trusted us). The IT sector was top ranked with 77%. At a recent conference of financial advisers, I asked delegates for a visceral reaction to "Can most people be trusted?" and 63% said yes. To the question "Can most people in finance be trusted?" the yes vote dropped to 56%. We don't even trust each-other! Yet, trust is (almost) all we have. Not only are our investment theories weak and our empirical data limited, but the deadly confluence of informational asymmetry and low signal/noise ratios mean that quality can never be tested.

Honest, jargon-lite, non-patronising, communication that connects with someone's cognitive and emotive states requires an investment in thought, sensitivity and time. The best advisers do so invest and reap substantial payoffs from effective communication. We should learn from them.

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More about Jack

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