



Introduction

Financial markets should have made it easy going for UK individual investors in the last two decades and information and ideas about investment were never so freely available. Yet we have all these walking wounded from bruising encounters with risk they did not anticipate, agents whose motives they did not appreciate and products they never understood properly.

Investors are waking up to their vulnerability to mistakes about products and agents for any number of reasons: mis-sold pensions, endowments that won't pay off the mortgage, having to pay for other peoples' guaranteed annuities, rip-off terms for getting into products, even bigger rip-offs when they try to get out, with-profits policies that look more like with-losses.

Misunderstandings about market behaviour also colour these mistaken choices. Vulnerability has been exposed by expectations that were only reasonable if inflation continued to be high and by classical investment bubbles, bursting first in emerging markets and then in technology stocks. With hindsight, the peak levels of major equity markets will be seen to have been another bubble waiting to burst and it will not be instructive merely to blame terror striking out of a clear blue sky.

The popularization of investment encouraged by newspapers, magazines, TV and the internet has failed to build strong educational foundations. Hype about 'consumer power' played up the frivolous benefits of information access, immediacy and new transaction platforms instead of the worthwhile goals of principles, planning and personal responsibility. Power does not lie in having a large-scale map unless you also know your destination, your starting point and the route that best connects them.

This book springs (would that it was actually that easy!) from a conviction borne of over 30 years of working in the industry that it is never too late or too difficult for individuals to master the essential principles of investing and to learn how to deal safely with an industry whose help they need

but whom they can ill afford to trust or depend on. Principles and a code of safe practice will get you as close as you can to peace of mind.

I like to think of this as money needing a good owner. For most of my career I have worked with what are known as 'institutional' funds, such as company pension schemes and endowment funds. Both involve trustees and these are the people that we professionals have to treat as our client. What is special about trustees is that they have a legal code that requires them to act as if they were owners. This is perfectly reasonable since they act on behalf of the ultimate owners and must do so in the owners' best interests. But what it also presumes is that owners themselves act in a particular way: with responsibility, with reason, delegating only with well-informed control, not blindly, not totally trusting. Good thinking – but it is not in fact how owners do usually act. To measure up to this model takes some effort on their part and some help from professionals who really want them to be good owners. Reading this account of what motivates the retail investment industry, you will see that there are a surprising number of reasons why firms are not genuinely committed to you being an educated and participating – let alone controlling – customer.

What makes good owners? They do not need to be clever but they do care more and have some general understanding, as a context for all the detail they will necessarily encounter. They do not need to be experts themselves but they need to be streetwise when dealing with experts. They know to respect the uncertainties inherent in investing and to mistrust false prophets. They know what kinds of decision matter and what are trivial. They choose their relationships with the industry, whose help even DIY investors need, cautiously and know how to control them, even when delegating. Good owners do not trust their money blindly to third parties or hope that whatever goes wrong there will be a scheme to bale them out. They know where there money is at work and they understand why. They have route maps.

This cannot promise a future without disappointment but it can minimize the chances of regret. So much of what has blighted individuals' recent experience of investing is coloured by regret. Our loud and angry voice cannot quite drown out a quieter and more reasonable one: 'I could – and should – have known better.'

What kind of knowledge does this call for? Many investors with bad experiences or anxieties about the future will probably assume that they need more of the 'know what' kind of knowledge. This book is mainly about the 'know why' kinds. Not only does it make it more interesting but it is also all that is needed to use knowledge of the essentials as an informing context and simplifying device to deal better with the confusing and often boring detail. 'Knowing what' treats the problem as one of inadequate grasp of the complexities of the industry, with its jumbled landscape of different types of

firm and different investment products, and desperately complicated tax regime. 'Knowing what' is dealt with by trying to cram more factual information into your heads.

It is served by manuals but there are already a number of published guides to the UK financial jungle and plenty of online glossaries of the jungle jargon. Instead, I invite you to follow a particular trail which has a deliberate, narrative logic. It starts with some elementary questions about what we want to achieve with our money, shows how we can use markets to achieve those goals or perform those tasks and then shows how to decide how best to implement that, including how to select who we want to work with in the industry and on what terms. Though it has a narrative thread, readers who prefer not to stick to the trail can use the Index or chapter and section headings to pick out particular areas.

As a narrative, it has three protagonists: your money, the markets and the people in between. Relating investment to tasks for your money or personal life goals makes it more relevant but also helps you to keep control of the agenda. The idea of the markets is important because it is where your money is put to work that determines outcomes, and markets have characteristics, or 'behaviour', that make them more or less suitable for achieving goals. They function as systems, or engines, whose power you can harness. Markets, not people, get the job done for you. The concept of the people in between is important because whereas you need to pass through industry firms or individuals to put your money to work they do not determine the investment outcome as much as you may suppose and they insert agenda conflicts and a cost wedge that are much more significant than you suppose.

The thread comes partly from history. Knowing the story of the development of the industry that inserts itself between us and the markets and seeing how many of our relationships and the products we buy are the accidents of history can help us to reshape our relationships so that they are deliberate and contemporary.

History flows into philosophy. Understanding the history encourages a mindset about ourselves, our goals, the nature of the power of capital markets, the limits of human intelligence and skill and the ubiquity of randomness which is arguably worth more than a thousand pages of detailed information about ISAs, SIPP, SSASs and the rest of the investment industry paraphernalia. It is a mindset that many investment professionals could themselves usefully adopt! Of course there should be monetary benefits from sound, rational and cost-controlled investment plans for you and your family. Yet the book also points to non-monetary benefits in terms of quality of life and the peace of mind associated with the clarity of well-articulated plans, the reduction in the stress of living with the short-term consequences of decisions

made for their expected long-term outcome and with having well-educated expectations both about outcomes and about what can happen along the way.

It is also partly about psychology. It is impossible to tune up our antennae to detect the enemy without unless we understand the motivation of the people in between us and the markets. It is difficult to exercise control sensibly unless we can also tame the enemy within: our own behavioural traits that are likely to drive us away from our investment goals.

The book does not propound any single theory in order to help you think about investment. However, it does offer a set of simplifying structures that impose an essentially rational process on an otherwise intuitive and emotive helter-skelter and these certainly owe their origin to well-developed investment theories. They help you understand why clever people so often get it wrong, why dumb index-tracking funds are a smarter choice than active funds, why planning is more important than management and why strategy – what markets – is more important than implementation – what products or what stocks. The book also points accusingly at the gulf between the use of theory-based investment techniques in the institutional market (where they also shape how those trustees exercise their responsibilities) and the rootless diversity and ambiguity of investment practice in the private client area.

I have tried to avoid a sensationalist exposé of the blatant abuses of customer trust that have seen so many great institutions, once pillars of the establishment, pilloried and humiliated in the press. Yet it is impossible to see this sad chapter in the story of the industry laid out again without being as astounded by the sheer cheek of these people as when the stories first broke, or to feel any less angry with ourselves at our capacity for gullibility. Nor should we be ice cold about the exposé of the much more subtle forms of corruption that have insinuated themselves into the very heart of the industry, in its conflicts of interest, flawed product design, unrealistic claims and excessive costs. Though we may feel less angry at ourselves for failing to spot the more subtle forms of system-wide corruption, why should we not be angry at the industry that works so efficiently and spends so extravagantly to institutionalize the myths that perpetuate these self-serving practices?

Though I assume most investor are not particularly numerate, the code of practice that is essential to the transfer of control from industry to consumer does rely heavily on the use of numbers instead of woolly flannel. Do not for one minute think that using numbers puts the professional at an advantage. Flannel suits their agenda far better. It is cheap, flexible and makes an excellent smokescreen. Control the language and you control the relationship.

Numbers allow you to describe your needs in an unambiguously explicit way, leaving the people in between no room to twist your description of your needs to fit what they want you to buy. Numbers, in the form of probabilities,

are also the language that best conveys risks and how to make choices that involve uncertain outcomes. Why is it so few investment firms, even independent financial advisers (IFAs), can quantify the odds of achieving the targets you define with the resources at your disposal? Why can't an adviser recommending actively-managed funds tell you what the odds are of making up the additional costs relative to an index-tracking fund? You wouldn't let a bookmaker get away with quoting flannel instead of odds. You wouldn't play roulette without being sure the house would pay out in proportion to the mathematical chances – pace the zero.

Some mathematical concepts and terms will be encountered on this trail but only when they serve to help communicate an essential principle or help you to translate the language that the industry may wish to confuse you with. Where possible I use a table or a picture to tell a story that relies on numbers.

More important than maths is an awareness of technology: investment engineering and the way you access it. This is an essential catalyst in the transfer of control from professional to customer. You should be able to see 'levers' of control and those levers should connect to 'engines' in the form of computer-based toolkits. You do not have to assess the performance of the engine or its design, which would be brilliant but unrealistic, only that it performs the functions you know you will require of it. This particularly includes the ability to deal with the uncertainties inherent in planning any investment task. It is the complexity of the uncertainties, of their relationship to each other, and of the trade-off decisions that typify the way the information is processed that makes computers, not clever people, the essential resource of investment firms. The use of engines is part of the story about how unaccountably differently the institutional and retail worlds have grown up. The engines and levers could be part of the technology of an adviser, such as an IFA or private client stockbroker; they could be sitting on the front end of the website of a unit trust group or insurance company that sells its own products, or on the website of a fund supermarket.

It is a book and it is a website - at www.nomoneybusiness.org. The website adds detail and links to other sources but its main purpose is to take the book on where the narrative ends, with the emphasis on practical implementation of the ideas in the book. It will keep up pressure on the industry, its regulators and law makers for consumer-friendly change. It covers new topics that are or should be compelling investors' attention. It takes sides. A conversation is always more interesting than a monologue and the website also allows people to respond and contribute – both customers and professionals. It can help investors find new industry relationships likely to be consistent with the No Monkey Business approach, whether DIY platforms, once-off advice, investment planning, ongoing advice or discretionary

management. It may also be able to offer online planning and selection tools, connected to engines designed to be consistent with the book's approach. Some of these practical aims will require help from enlightened firms in the industry but even then it is possible that having useful interactive functions will mean that subscriptions need to be charged. What comes free is not necessarily a bargain but, as the book says, the internet can drastically cut the cost and ease of access to customized personal services based on state of the art investment engineering, and that will be a bargain.

In writing this book I had a simple purpose: to encourage you to trust yourselves more and the industry less. Use the industry to get the information you need and in the form you need it. Select people to work with whom you find personable and who inspire confidence but make sure they also meet your criteria, have the right mindset, will work on your terms and to your rules, whether you intend to delegate a lot or a little. Take your time. Getting the relationships right is more important than anything else. Follow the code and only out of idle curiosity, in jest or as a trivial pursuit will you ever again ask an investment professional the question, 'What do you think the market's going to do?' Why on earth should they know? You will already know what the markets *can* do for you and your personal life goals. You are on journey, not a race. Bon voyage - and travel safely.