The Mindful Investor: How Meditation can help you weather stock market volatility

Posted: January 29, 2010, 4:42 PM by Jonathan_Chevreau
Financial Independence, Stocks, financial planning, Sleep Easy Investing, Crash of 2008

There's a growing field of research and literature called "behavioural finance" that looks at the emotional side of investing but until the publication of the book pictured below, I'd never come across one that looked at the spiritual side of investing. In light of the 2008 stock market crash and ongoing jitters about the financial crisis, *The Mindful Investor* is a timely little book.

Subtitled *How a Calm Mind Can Bring You Inner Peace and Financial Security*, the Wiley-published book has been coauthored by certified financial planner Graham Byron and a mindfulness meditation teacher and corporate trainer named Maria Gonzalez [pictured left]. She has a B.Comm and an MBA and has spent 30 years in business. Currently, she's president of the firm she founded: Argonauta Strategic Alliances.

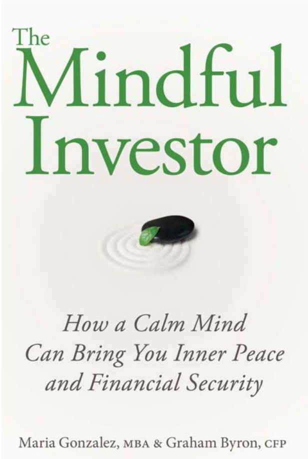
So what is mindfulness? It's "simply noticing the way things are," she writes in the second chapter. And the ability to accept "what is" without resistance is called Equanimity. Equanimity is about accepting things you can't control -- such as stock markets and interest rates. That doesn't mean the authors recommend a passive or stoical indifference to investment portfolios. Equanimity literally means balance and practically it means "don't fight with yourself."

Equanimity helps you make better decisions

By practicing Mindfulness meditation, you experience a greater sense of calm. And "when you're equanimous you accept what is and make better decisions because you're able to keep your wits about you when others can't."

Lest we forget, think back to about this time a year ago: February and March 2009. Did you keep your wits about you?

The second half of the book appears to have been penned mostly by Graham Byron, starting with a chapter 6, titled simply The Financial Plan. This is fairly standard stuff but includes some material on Monte Carlo simulations, a way of giving you a realistic picture of what can happen to your investments -- whether good or another catastrophic "Black Swan" event. As he puts it, "It's critical to be aware of the odds of your portfolio failing either from assuming too much risk or from settling for too little return."



Money: Try making it Priority # 5, not # 1.

Where it gets interesting is chapter 7, on Portfolio Construction. To keep money in perspective so you can make better decisions about it, the authors suggest your priorities should be in the following order:

1. Spiritual and mental health.

2. Physical health for you and your family.

3. Time.

4. Opportunity to help others.

5. Money.

There follows a fairly standard exposition of asset classes and asset allocation. However, in coming up with the mix, Byron sensibly suggests translating percentages into absolute dollar amounts. So if your advisor asks you if you'd be comfortable with a 10% decline in your portfolio, translate that into dollars: in other words, if your portfolio is $1 million, ask yourself how you'd feel about losing $100,000 of it at one fell swoop.

How to get the benefits of all this? The authors cite two prerequisites: motivation and practice. The book ends with three appendixes, one of which is how to find a mindfulness teacher. There can't be that many out there so if you're in the Toronto region, I'd think Maria herself would be the place to start, or someone she recommends elsewhere.

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by meggs11
Feb 01 2010
12:56 AM

Excellent work! You have really given me another perspective on meditation and it's uses. I've also found another handy technique at http://tinyurl.com/yh269lp

by TAMRIS
Feb 02 2010
2:24 PM

The following comments have been made without reference to the source text.

Re: "Monte Carlo simulations, a way of giving you a realistic picture of what can happen to your investments”.

I am not sure how many people actually understand how Monte Carlo simulations work and on what assumptions they depend.

In order for the illustrations and their probability distributions to be realistic you need, more or less, the following conditions to hold:

1. That the risk assumptions reflect the actual sensitivity of price movements to new information.

2. That there is equilibrium in economic and securities markets at all points in time.

3. That return assumptions (and risk) reflect point in time returns from equilibrium positions.

4. That the covariance of economic relationships and asset prices remain stable.

5. That the positive and negative return outliers of the simulations (over time) represent stable physical economic outcomes: in other words can an economy and market realistically continue to decline/increase at rates noted while remaining at stable equilibrium outcomes?

If these conditions are not met, Monte Carlo simulations risk providing an illustration of likely outcomes that differ significantly from reality and the risks of that reality. From 1980 to 2007 the status of world economic, financial and market relationships had moved from one extreme out of equilibrium position to the other: these two starting points are likely to produce two wildly differing risk return outcomes than that provided by a Monte Carlo simulation.

I fail to see how anyone can promote the simple generics of Monte Carlo simulation, without caveat, with a straight face. In all truth you need to adjust your starting point for market and economic structural and valuation risks and the modeling return paths for the same; but by then you no longer have the elegance that has so many confused as to its value.

Its only redeeming value is that it does at least force those using it to present some objectivity with regard to the reality of loss, even though its use may also be used to present the illusion of due diligence when there was in fact little or none.

Andrew Teasdale

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