# What They Do With Your Money: How the Financial System Fails Us and How to Fix It

*Stephen Davis, Jon Lukomnik, David Pitt-Watson*
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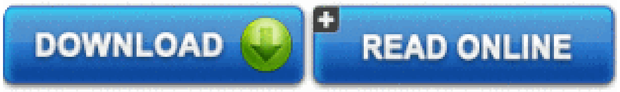


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**Stephen Davis, Jon Lukomnik, David Pitt-Watson : What They Do With Your Money: How the Financial System Fails Us and How to Fix It** before purchasing it in order to gage whether or not it would be worth my time, and all praised What They Do With Your Money: How the Financial System Fails Us and How to Fix It:

0 of 0 people found the following review helpful. A thoughtful collection of to-do listsBy Paul F. RossReview of "What they do with your money" by Paul F. Ross The authors do an interesting and understandable system analysis of the worldrsquo;s financial systems. They see savers as owners of the activities in which their monies are invested.

They see banks, investment managers, and insurance companies as the institutional structure for the financial system. They see investors as the managers of risks and of the economy, the human activities that produce the outputs that support human life and cause that life to improve. They describe this financial system in a flow diagram (p 19). Clearly stock exchanges, consultants to the financial industry, central banks operated by sovereign ________________________________________________________________________________________Davis, Stephen, Lukomnik, Jon, and Pitt-Watson, David "What they do with your money: How the financial system fails us and how to fix it" 2016, Yale University Press, New Haven CT, ix + 286 pages________________________________________________________________________________________governments, regulators, the World Bank, the International Monetary Fund, the research community whatever its base, the financial press, and a variety of related activities are also parts of the worldrsquo;s ldquo;financial systemrdquo; and, given the straightforward flow diagram offered by the authors, are grouped as ldquo;investment managers.rdquo; Citing research by others, the authors quickly inform the reader that ndash; while other industries and the worldrsquo;s economies as a whole have shown more or less continuous increases in productivity in recent times, say the last century ndash; the financial industry has shown a decrease in productivity, a idea supported by noting the financial industryrsquo;s increasing share of the worldrsquo;s Gross Domestic Product. The authors attribute the decrease in productivity in financial systems to (1) institutions that have lost sight of the purposes for which they have been formed, (2) incentive structures that guide institutional leaders to make choices advantaging the institutional leaders and not the owners, and (3) fees and structures that are kept out of sight of the owners (the savers, those who supply capital).Davis has ties to Harvard University, Lukomnik to the Investor Responsibility Research Center headquartered in New York NY, and Pitt-Watson to the London School of Economics. The value structures underlying the book and the authorsrsquo; presentation are that savers are the capitalists and owners, that the financial system should operate efficiently in support of saversrsquo; goals, and that the world economyrsquo;s goal is to deliver what humans need and to do so with increasing efficiency (thus valuing successful investors and managers that create and lead the productive parts of the economy). The authors point to the current systemrsquo;s problems and wish to fix the financial system. They tell us how to fix it. Their work is well based in current, published academic and financial research. Their advice produces long lists of actions to be taken, items to put on our to-do list. The authors label their work as an ldquo;ownerrsquo;s manualrdquo; for those who save to buy a house, to pay for the kidsrsquo; college, to cover future medical expenses, and to pay for life in retirement. The authors write, very insightfully, hellip;ldquo;hellip; the remedies we have suggested are hardly radical. Why have they not taken root? One often-overlooked reason, we believe, is that we are too willing to leave these problems to the experts. And the experts are often intermediaries who have every reason to defend current practices. If remedies for the financial systemrsquo;s failures have one thing in common, it is that they nearly always address the interests of the first two estates of the market, corporations and institutional investors, but neglect those of the third estate, the citizen investors (p 227).rdquo;How, then, do we accomplish the ldquo;remedies?rdquo; The authors write a magna carta for citizen investors. It is easy for this citizen-investor-reader to say ldquo;huzzah.rdquo; But how does one get American society, the worldrsquo;s societies, to seriously undertake following the magna carta ? This reader thinks he sees around him many different aggregations of knowledge, this summary by Davis and colleagues among them, which, if put to work, if applied, would deliver very large benefits to humanity. He sees those aggregations, like this list of to-dos for financial management, as NOT being adopted. Why? This reader sees three fundamental reasons: (1) the most educated, most gifted portions of humanity emerge from university without having gained useful knowledge about these knowledge aggregations and the means for their advance. Thus their capacity to promote inventing solutions to problems, increasing productivity, moving vast majorities of the worldrsquo;s people into the middle class, is unnecessarily atrophied as these leaders begin their careers and does not improve as they mature. Then (2) the incentive structures for those who exercise leadership roles favor self interest and continuation of the privilege of exercising personal power rather than rewarding leadership acts that benefit ldquo;everyonerdquo; and future generations as Davis and colleagues note at length. Further, as these authors note so often, (3) valid and useful information about individual and organizational performance is very close to non-existent, not merely ldquo;inaccessible,rdquo; in todayrsquo;s practice so that it becomes next to impossible to fairly and justly reward outstanding performance, to invest where onersquo;s investment will accrue at a rate reflecting the productivity increases of the best performances in the worldrsquo;s economies. This behavioral scientist published an article (Ross, 1974) describing ldquo;Innovation adoption by organizationsrdquo; and noted that three influences affect the rate at which organizations adopt new practices :: the organizationrsquo;s means for learning about new ideas (initiating mechanisms), the organizationrsquo;s readiness to try new practices (sustaining mechanisms), and the organizationrsquo;s capacity to track its own performance in useful ways (feedback mechanisms). Davis and colleagues have collected a long list of actions to take. They catalogue many initiating mechanisms. Davis and colleagues note the absence of feedback mechanisms, advocating their invention and use. Perhaps their book will help stimulate a growing body of public comment ndash; can you imagine the Twittering, the blogging ndash; strengthening the sustaining mechanisms that are needed to support innovation in government and organizational practices that are needed to distribute rewards for investment and productivity growth to people across the socioeconomic spectrum, making national boundaries completely permeable to economic and political benefits, instead of distributing benefits disproportionately to the power-privileged few. Imagine what that would do to autocratic governments! Davis and colleagues have provided an interesting read, note some pathways for converting ldquo;possibilitiesrdquo; for improved financial performance into ldquo;actualities,rdquo; and could benefit from better insight into powering emotional commitment, growing the ldquo;sustaining mechanisms,rdquo; needed to support the changes they recommend.Bellevue, Washington26 September 2016Copyright copy; 2016 by Paul F. Ross All rights reserved.ReferencesDavis, Stephen, Lukomnik, Jon, and Pitt-Watson, David "What they do with your money: How the financial system fails us and how to fix it" 2016, Yale University Press, New Haven CTRoss, Paul F. "Innovation adoption by organizations" 1974, Personnel Psychology, 27, 21-470 of 0 people found the following review helpful. Spotlights a real problem, but incredibly naive on solutionsBy TrevorIf the authors were put in charge of a private bank, and attempted to instigate the kind of revolution they advocate, the shareholders would want to fire them as profits and share prices would fall. The most influential employees would revolt too as salaries would go in the same direction. But it wouldn't happen because power corrupts, and their good intentions would disappear once their hand was in the cookie jar. Animal farm repeated in a private bank!It was even more naive to suggest that governance in the non-financial sector of the corporate world provides any kind of role model.Douglas Adams had a more practical solution for ridding Golgafrincham of the parasitic sector of society. Perhaps Elon Musk can build the spaceship.0 of 0 people found the following review helpful. I would recommend this book as an interesting source of both historical ...By Ed IgelWell written book covering several aspects of the financial industry. Although I originally felt the book was somewhat biased against the financial industry, by the end of the book I realized it was basically a well balanced and accurate presentation. I would recommend this book as an interesting source of both historical and modern money management information.

Each year we pay billions in fees to those who run our financial system. The money comes from our bank accounts, our pensions, our borrowing, and often we arenrsquo;t told that the money has been taken. These billions may be justified if the finance industry does a good job, but as this book shows, it too often fails us. Financial institutions regularly place their business interests first, charging for advice that does nothing to improve performance, employing short-term buying strategies that are corrosive to building long-term value, and sometimes even concealing both their practices and their investment strategies from investors. nbsp; In their previous prizewinning book, The New Capitalists, the authors demonstrated how ordinary people are working together to demand accountability from even the most powerful corporations. Here they explain how a tyranny of errant expertise, naive regulation, and a misreading of economics combine to impose a huge stealth tax on our savings and our economies. More important, the trio lay out an agenda for curtailing the misalignments that allow the financial industry to profit at our expense. With our financial future at stake, this is a book that analysts, economists, policy makers, and anyone with a retirement nest egg canrsquo;t afford to ignore.

ldquo;This excellent and well written book exposes the multiple leakages to various agents operating between savers and pensioners and the companies they are invested in as well as the problems of collective industry failure. It does not just make clear the problems and the often perverse incentives in the current system, but with clear ldquo;takeawaysrdquo; after each chapter, the authors propose practical solutions from greater transparency to systemic regulation, with an outline of what a ldquo;Peoplersquo;s Pension Planrdquo; and a ldquo;Common-Sense Bankrdquo; would look like. The book has insights for the individual investor as well as those in the industry interested in making the investment process fairer and more responsible.rdquo; -- Sir Mark Moody-Stuart, former chairman of Royal Dutch Shell