

THE WISDOM OF CROWDS

June 2004

JAMES SUROWIECKI

Why the many are smarter than the few and how the collective wisdom shapes business, economics, societies and nations

The following is a summary of what I believe are important points about ethics in business and life. I highly recommend this book.

- Societies and organizations work only if people cooperate. People who repeatedly deal with each other over time recognize the benefits of cooperation, and they do not try to take advantage of each other, because they know if they do, the other person will be able to punish them.
- The foundation of cooperation is not really trust, but the durability of the relationship. Cooperation is the best way to get things done.
- Groups do cooperate. People do contribute to the common good. But the fact that people will contribute to the common good doesn't mean that businesses necessarily will. Why is this? Corporations are, perhaps because investors encourage them to be, myopic. What can happen is the business and the investor's goals are not aligned. The investor wants short-term results and the business is trying to produce long-term sustainable results or vice versa.
- A good society is defined more by how people treat strangers than by how they treat those they know.
- The history of the Quaker's is noteworthy. When they settled in North America in the 18th century, they brought with them a reputation for reliability and trustworthiness. They continued to prosper into the 19th century as the non-Quaker community also traded with them. It appears that honesty is profitable.
- Over the centuries, in fact, the evolution of capitalism has been in the direction of more trust and transparency, and less self-regarding behavior. Not coincidentally, this evolution has brought with it greater productivity and economic growth. The benefits of trust – that is, being trusting and of being trustworthy – are potentially immense.

- At the heart of this shift was a greater emphasis on the accumulation of capital over the long run as opposed to merely short-term profit. Fair dealing becomes more valuable.
- The social benefits of trust and cooperation are unquestioned. **But they do create a problem.** The more people trust, the easier they are for others to exploit. If trust is the most valuable social product of market interactions, corruption is the most damaging.
- The idea of the wisdom of crowds is not that a group will always give you the right answer but that on average it will consistently come up with a better answer than any individual could provide.
- **How to beat a stock market bubbles** – Don't buy the bubble! If enough of us take this stand, there will not be a bubble. Buy quality and be wary of trends as they peak in value.
- **Decision-making** – As has been demonstrated by recent corporate scandals, decision making should not be left to a single person. In fact, the more important the decision, the more important that it **not** be left in the hands of a single person. At Taylor Financial Group, we use the team approach to decision making. Our clients have benefited by this process.

Wayne Taylor's comments –

The seeds of the stock market crash and corporate corruption scandals of 2000 to 2003 appear to have been planted in the mid 1990's. Corporate North America fell off the ethics wagon and many people paid the price. It appears that securities regulators in Canada are now starting to do what they should have done in the mid 1990's. Industry also appears to be getting back on the ethics wagon again. Sadly, our Canadian "financial police" took much longer than our American counterparts did to correct the corruption problems. In January 2006, Bill 198 was passed in Ontario making it easier for shareholders to recoup losses from corporate bandits. Let's hope this will be sufficient threat for those "cooking the books" to play their games elsewhere.

We as investors and advisors must be ever watchful to ensure that businesses not only get back on the ethics wagon but they stay there. Let's hope Bill 198 works. The "wisdom of crowds" is a powerful force. We are watching.

Wayne E. Taylor P.R.P.