What I Learned Losing A Million Dollars Summary

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1-Sentence-Summary: *What I Learned Losing A Million Dollars shows you how to recognize and steer clear of the pitfalls of stock investing by sharing the story of one man who made some bad investment decisions and had to deal with some pretty terrible consequences because of them.*

Read in: 4 minutes

Favorite quote from the author:

Can you imagine making $248,000 in a single day? That's what Jim Paul made at one point a few years after deciding he wanted to make a lot of money. His lucrative job in futures trading, and the success he was having, seemed like it would never end.

And yet, somehow, it all came crashing down.

Paul got his eye on soybean oil positions and bought a bunch of them. This meant he was committing to buy at a date in the future. But his previous successes had blinded him to the dangers that lay ahead.

Even when the market began to turn, Paul's faith never waivered. Political unrest, grain sanctions, and bad crop yields due to weather all made prices start to drop. It got so bad that at one point he was losing $20,000 a day for months in a row.

Although everybody else had left, Paul persisted. It eventually cost him his job and over $800,000. So what happened?

The lessons that this man discovered are the subject of his book *What I Learned Losing A Million Dollars*. After this, you're going to be a lot smarter about your investment choices!

Let’s see how much we can discover in just 3 ideas:

1. You might think your smart, but your brain has a hard time letting go of false beliefs that lead to risky decisions.
2. Loss is avoidable if you understand crowd behavior and how to steer clear of its negative influence.
3. Plan things out based on a thorough evaluation of the circumstances before you take risks.

How about we dive right in and discover what Jim Paul learned losing a million dollars?

Lesson 1: You’ll make risky decisions too often if you don’t learn how your brain sometimes works against you.

Say you flip a coin five times and it comes up tails every time. What will come next? If you think it’s 100% got to be heads, you’d be wrong. There’s still a 50-50 chance it will be heads or tails.

This is just one of many logical fallacies that your mind falls prey to, and it’s what can make investing dangerous.

The logical truth is that every flip of a coin has a 50-50 chance of being heads or tails. **Nothing you get previously affects what will happen next.** But your brain looks for patterns where they don’t exist.

Imagine you buy stocks in steel and the price starts dipping. Day after day it goes down. But it’s got to come up eventually, right? Actually no, this is your psychology tricking you again. All you’re doing now is gambling!

The risk that your irrationality poses is relatively minimal with discrete, or one-time events. A horse race, for instance, has a specific start and stop. You can win or lose that one bet.

But when the event is continuous, such as when you’re at a slot machine, the risk increases exponentially. That’s because your illogical mind plays tricks that keep you betting by making you think, wrongly, that your chances improve with each pull of the lever.

Lesson 2: Crowd behavior is dangerous and can cause you to make bad choices, but you can avoid loss if you learn how to ignore it.

I always find myself shaking my head when I’m at a sports event and people are yelling at the referees. It won’t make any difference! But another psychological fallacy is that when people are in crowds, they do things they wouldn’t otherwise do.

You like to see other people mimic your actions, so when you start to see the wave or a chant going around a stadium, it's natural to follow along. But the contagiousness of these actions can also make them dangerous, especially when fear is the motivator of them.

Most traders can tell you that their worst decisions came because of this one principle.

Consider the fanaticism around tulips in the Netherlands during the seventeenth century. **The price of a bulb skyrocketed to as much as people normally made in ten years as traders became obsessed.**

Inevitably, though, the bubble burst, and everybody that had put their money into tulips lost it!

It's easy after the dust settles to see how stupid of a decision it was in the first place. Hindsight may be twenty-twenty, but that doesn't make it easy to make the right decision the next time a crowd is influencing you!

Remember to be aware of this fallacy and always ask yourself "am I investing in this because I have evidence that it's got potential, or because everyone else is doing it?"

Lesson 3: Before you take a risk make sure to evaluate the circumstances and make a plan.

Throughout the 80s and 90s, the investment banking firm Morgan Stanley saw significant successes. The big key? Planning.

This firm's attention to detail set them apart. Their meticulous planning procedures included worst and best-case scenarios. And although people complained sometimes that they were slow, they didn't make mistakes.

The reason Morgan Stanley's planning worked so well for them is the same reason it will work for you. **It's because outlining your strategy makes it less likely you'll let emotion control your decisions.**

One crucial component of your plan is formulating responses to the right questions and getting them down on paper. Will you set rules for your investments? What kind of things do you want to put your money into? Will you wait to buy or sell until stocks reach certain targets?

While a plan is vital for success, it's not enough. You also need an excellent source of information that you can rely on. As we've learned, the crowd can make you do stupid things. But having a good analysis of the situation will help prevent that.

By following these tips, you can invest safely and avoid making the same mistakes Jim Paul did!

What I Learned Losing A Million Dollars Review

One thing I really love about *What I Learned Losing A Million Dollars* is that it's the perfect example of someone who learned from their mistakes. And now you and I don't have to make those same errors and experience their consequences to learn the same lessons! You do have to recognize that this is mostly applicable to stock investing, so if you're looking for money advice beyond that, this isn't for you.

Who would I recommend the What I Learned Losing A Million Dollars summary to?

The 20-year-old who has just made their first stock investments, the 43-year-old that's just lost a lot of money after a market crash, and anyone who wants to understand the pitfalls of investing and learn how to avoid them.