Pop Finance: Investment Clubs and the New Investor Populism.

Brooke Harrington. Princeton, NJ: Princeton University Press, 2008. 242 pp. $29.95.

Pop Finance offers a lucid, lively, and literate portrait of an important and intriguing institution: the investment club. The book is an ethnographic tour de force, deftly combining detailed observation of seven Bay Area clubs before and after the dot.com craze, results from a 1998 survey that Harrington sent to several thousand investment clubs across the U.S., and secondary analysis of archival materials on investment clubs and their members. The payoff is considerable. Harrington has acquired an unparalleled understanding of these organizations, their members, and the contexts in which they operate. She is able to draw linkages between her findings and a broad array of important scholarly and policy concerns, such as how the gender composition of clubs affects clubs' performance and persistence, how concerns about identity (particularly relating to gender) shape decision making in these groups, and how the rise of this form of "investor populism" is likely to affect corporations. The variety of lenses through which Harrington views and analyzes investment clubs is impressive; just the breadth and depth of the reference list alone may justify owning *Pop Finance*.

Harrington begins by charting the rise of the "ownership society" and how investment clubs relate to that trend. She turns next to how the clubs function and how their members make decisions. Given the bewildering range of choices available to would-be stock market investors, Harrington not surprisingly observes considerable evidence during club meetings of bounded rationality and reliance on many of the cognitive shorthands emphasized by behavioral economists. But, she argues, there is much more going on. She documents that club members seek through their purchases to forge and reinforce social identities and to affirm their collective understanding of the world:

> In this light, the stock market can be viewed as a collective attempt by millions of people to establish an intersubjective reality called "value.". . . investment in stocks requires the construction of imaginative links between signifiers (the stocks) and the signified (value). This is why narrative is so important in shaping understanding of the stock market: it is literally the lingua franca of investing. (pp. 47–48)

The arrows between stock market decisions and social identity appear to go in both directions. Clubs rely on shared aspects of their members' identities in choosing stocks, imposing "identity screens" alongside the financial screening tools they routinely employ. Such behavior is conspicuously on display when it comes to "socially responsible" and "faith-based" investing, but Harrington finds that it is far more general than that. In purchasing stocks, clubs are not merely investing; they are simultaneously consuming, using their purchases to establish or maintain a shared view of the social landscape. A compelling example is one all-female club Harrington observed discussing whether to purchase Harley Davidson—a very hot stock at the time—but deciding in the end not to do so because the members would not want to see their kids riding choppers. Once members agreed that

the stock did not jive with their shared value system, they shifted immediately to an alternative prospect, Callaway Golf, which they regarded as much "safer" (in a social rather than financial sense). Gender identities seem to be especially salient in shaping stock purchases, with women relying principally on their role as consumers in identifying targets and men seeking to leverage their work and professional identities to spot attractive opportunities.

Harrington finds that investment club membership also plays an important albeit different role for men and women as a source of identity. For women, investment club membership seems principally to be a means of developing proficiency with the role of "investor," typically to solidify relationships with men (e.g., husbands, sons getting an MBA degree). For men, it is a venue that offers chances for displays of masculinity and fraternal bonding that may otherwise be hard to come by, due to the competitive ethos at work, the isolation of retirement, or what is expected of men on the home front: "When asked why they chose this specific format—the investment club—to provide this space for male bonding, the men responded that it was the only set of interests they held in common *and* the only activity that their wives would not be interested in sharing. 'We're paying money to get out of the house . . . but nobody says that to their wives,' said Brad" (p. 165).

Harrington's most interesting findings concern the factors that affect clubs' financial performance. One important determinant is group diversity. Consistent with social psychological research, she finds that informational diversity (varied sources of ideas about investment opportunities among members) has a positive impact on financial performance; conversely, the effects of demographic (gender) diversity tend to be negative. These findings hold up despite statistical controls for various other factors that might affect performance. Another key factor influencing clubs' performance is the recruitment and selection process. Clubs formed around affective (kinship or friendship) ties had considerably less dissent and significantly worse results than clubs whose members were connected by instrumental (professional or financial) ties. And the two causal factors are interrelated: because friendship networks tend to be homophilous, mixed-sex clubs are more likely to evolve out of instrumental workplace ties. Yet because workplace ties are more transitory than those based on friendship or kinship, the mixed-sex clubs also turn out to be shorter-lived, despite their superior results. These examples offer a sense of how rich and interesting the landscape is through which Harrington guides us. And she does so with prose that is unusually clear, crisp, and well crafted.

There are several potential limitations to the book, in my view, none of them catastrophic by any means. First, the author's aptitude for drawing links between investment clubs and academic theories or policy topics occasionally seems overextended. The fact that a connection can be made doesn't necessarily mean it should be. This may be a residue of the monograph's former incarnation as a doctoral thesis. Some readers may be left wishing the photographer had provided a

few more close-ups of the beast's most prominent features, rather than medium-distance shots of every square inch of the animal from every conceivable angle.

Second, in sketching the potential implications and benefits of investment clubs vis-à-vis corporations, markets, and society, Harrington may go too far, particularly in the last chapter. There is certainly no disputing that investment clubs are prevalent and interesting. Yet the largest association of investment clubs in the United States (NAIC, now better-investing.org) saw its membership drop from over 730,000 members and 36,000 clubs at the end of 1998[1] to a present-day count of "95,000 members [of which] 73,000 belong to one of 9,500 local . . . clubs."[2] The combined portfolio value of all NAIC members is currently about $70 billion. This is certainly not chump change (roughly equal to the combined endowments of Harvard, Stanford, and Yale). Yet as a basis of comparison, TIAA-CREF alone currently serves 3.4 million members and manages $420 billion of assets (as of June 2008). Furthermore, investment clubs typically underperform the market by a considerable degree. In short, the investment club appears to be an institution on the decline, one that underperforms alternative vehicles and apparently often reinforces stereotypical gender dynamics. Is this really our last best hope for promoting "investor populism" or reversing the trend toward "bowling alone"?

Like any pioneering study, *Pop Finance* raises at least as many intriguing questions as it answers. It would be interesting to know more about whether the processes and outcomes Harrington reports are unique to investment clubs or instead generalize to other settings in which groups allocate resources. For instance, do venture capital syndicates, groups of angel investors, or lending committees display similar patterns, making decisions and producing outcomes that differ markedly from those that would arise if individuals made the same decisions? It would also be fascinating to know if and how involvement in these clubs transforms the way their members think and act. Recent research by DeVoe and Pfeffer (2007a, 2007b) has shown that simply priming people to think about their earnings in terms of "rates of return" changes the way they think about time, reducing the propensity to volunteer or donate to charities and increasing the appetite for work relative to leisure. Talk with young professional poker players or read their online forums and you will discover that they assess virtually all aspects of life—including relationships, sex, and even personal hygiene—by whether or not the activity is "+EV" (i.e., positive expected value). Harrington shows us how social relationships, cognitive schemes, and value systems shape the task of investing: does ongoing experience with the task of investing, in turn, have feedback effects on how individuals think and act?

Pop Finance has a great deal to offer many audiences, not just those interested in economic sociology, organizations, markets, and behavioral finance but also scholars who study groups, demography and diversity, social capital, decision making, gender, and identity. And researchers can gain some invaluable methodological insights into fieldwork and

1 http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/12-16-1998/0000825484&EDATE=.

2 http://www.betterinvesting.org/NR/rdonlyres/FC023ED0-273F-4701-B845-A9DFCE953304/0/FactSheet.doc.

multimethod studies from Harrington's careful and creative scholarship. Like the stock market itself, *Pop Finance* has its ups and downs, but the returns from reading it are well worth the investment.

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