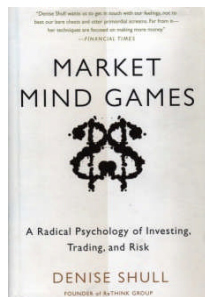


the one page book review



Title: Market Mind Games: A radical psychology of investing, trading and risk
Editors: Denise Shull
Publisher: McGraw Hill
Price: £20.00

This is a fascinating book, even if you are not a trader or financial whizz-kid. It addresses the kind of situations that we all find ourselves in from time to time; where we have to make complex decisions under pressure. It's just that in the financial world, traders find themselves in this situation on a daily basis and the cost of failure is high.

At the heart of this book is the idea that the 'traditional' notion, that rationality is king and emotions should be largely ignored, is not a good strategy when faced with complexity and pressure. Shull goes further; not only should we pay attention to our emotions when making a difficult decision, they might be the *only* source of information that we can trust.

Behind this idea lies the principle that facts are never neutral. Even numbers on a computer screen will have some significance for the person looking at them. The actual significance that an individual puts on the facts that they see is driven by the beliefs they hold. Beliefs tend to have an emotional content, so when we see a set of data, we also have emotional and physiological responses to what they represent. This is where intuition and 'gut feel' play a part in decision-making.

Thus, trading becomes a game of perception as much as it is about statistics and trends. Being aware of your own emotional state, and at the same time having an understanding of how others are also perceiving the trading environment are key to sound decision-making. This is Emotional Intelligence for people who don't hug trees. The book is packed with research on the influence of emotions in decision-making and how a lack of awareness of your own emotional state can lead to poor choices. Interestingly, emotions seem to have a 'residue' that exists well beyond the point where our conscious awareness of them has passed and yet they still affect our decision-making. For example, chasing the market, making one bad decision after another simply because you felt angry when you had lost out on a deal earlier in the day. So awareness of our emotions can help in trusting our intuition, but it can also help guard against acting impulsively. (By the way, Shull does not argue that emotions are a substitute for cold logic. Intuition comes from being able to recognise patterns and trends that have been established through years and years of analysing data. There is still a place for hard work and rehearsal!)

Shull's argument is based on psychodynamics, which says that we tend to repeat patterns of behaviour in adulthood that we first learned as children, many of which are based on how we learn to gain approval. These unconscious patterns are acted out in more adult ways, but inability to decide or making poor choices can often be tied back to unresolved conflict earlier in life. While the book is short on the 'how' of becoming more emotionally aware, traditionally the psychodynamic approach requires the 'client' to work extensively with an 'expert' in order to uncover the patterns that drive the behaviour. This might be uncomfortable for some. Nevertheless, an absolutely fascinating read and it has a relevance far beyond the rarified atmosphere of trading.