

Reports

Denise Shull: A cool-headed take on traders' emotions

By Hal Weitzman

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Denise Shull wants us to get in touch with our feelings. That does not mean she is trying to encourage us all to sit on scatter cushions in a circle and hold hands, or head into the woods to beat our bare chests and utter primordial screams. Far from it – her techniques are focused on making more money.

Traditionally, financial traders have been told to ignore their emotions and focus on their strategies in a cool and detached way. But Ms Shull maintains that feelings are there for a reason – and they can be employed as a trading strategy in themselves.

In the trading world, Ms Shull has more credibility than some of her competitors. She has a master's degree in neuroscience from the University of Chicago, but while studying there she began trading on the Chicago Board Options Exchange. Her experiences deepened her interest in trader psychology.

"Feeling and emotion are part of your analysis and decision-making," she says. "To be better risk-managers or traders, you need to become conscious of your feelings and emotions. Then, you can be aware of your biases and you've got a better data set."

She says modern portfolio theory and behavioural finance have neglected to explain how individuals' views of the market are shaped in the first place, while context-free trading formulas and market theories fail to describe financial markets accurately.

"These are social markets," she says. "All you're doing is betting on what other people are going to pay for. We've tried to turn that into an algebra problem and it's not."

This is challenging stuff – not just for the male-dominated world of trading. Ms Shull suggests that what she is proposing is nothing less than "rethinking thinking" – challenging our ingrained views about how we should use our brains in the first place.

"Our psyche uses feelings and emotions as a resource, but we've all been brought up to think it's not a resource," she says. "It's been denigrated. We've got to teach people how to reclaim it and analyse it. It's always been there, colouring our perceptions of the market."

By telling traders to set aside these emotional data, Ms Shull maintains, conventional wisdom goes against human nature. "We're fighting the way our brains work," she says. "Let's start working with our brains. If you do, you'll be able to manage risk better and read markets better – and have a chance of beating the people who aren't."

She is sceptical of the notion that high frequency trading has removed feelings from the activity. On the contrary, Ms Shull says, algorithmic trading strategies are stuffed full of assumptions and sensitivities – and deciding when to shut them off can be emotional.

Through Trader Psyches, a consultancy that is now part of her ReThink Group, Ms Shull has been offering traders psychological coaching since 2003. The business took off in 2006, when Eliot Wickersheimer of Mirus, a Chicago futures brokerage, suggested she host a “webinar” for traders.

In recent years, she has helped hundreds of clients with personal consultations – mainly small hedge funds, former floor traders and independent traders. She charges individual clients about \$50,000 a year, with the cost running into the hundreds of thousands for a team of traders.

More recently, Ms Shull has developed a \$2,500 software course aimed at customers who cannot easily attend or afford one-on-one coaching.

Mike Doran, president of Sierra Capital Investors, a small hedge fund based in northern California, became a client two years ago. “Prior to working with Denise I was reaching burn-out. I wasn’t managing the anxieties of trading,” he says.

Mr Doran, who has been trading equities for 17 years, had worked with other coaches, but had made little progress. That Ms Shull has trading experience makes a huge difference, he says.

He credits her with having helped him outperform many of his peers. “We were down only 2 per cent last year,” he says. “If I hadn’t worked with her, I probably would have been overcome by all the stress and would have traded more impulsively. A lot of hedge funds went under for that reason.”

Ms Shull’s technique is founded on identifying feelings and articulating them. “Feelings and actions are separate things,” she says. “Everybody says: ‘control your feelings’. But you don’t have to control your feelings, you have to control your actions.

“However, because people haven’t been taught to deal with feelings as data, the energy of the feeling goes straight to the action – you act out the fear, the greed, the anger, because you haven’t been taught to look at fear, greed and anger as data first.”

She advises traders to identify their emotions and analyse how much they are connected to their trading positions as opposed to external influences. It helps to articulate them – if not to a psychologist then by speaking into a tape recorder or writing in a journal.

This way, traders can know if they are anxious because of something in their personal lives, or because of their feelings about the market.

Ms Shull says emotions can sub-consciously signal trading opportunities. “Your brain has been watching these markets for years,” she says. “It knows patterns you’re not conscious of, and it’s communicating that on a feelings-based level.

“If you’re listening for that, you’ll be alerted sooner on the risk side and you’ll have new ideas sooner.”

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