



WHAT WOULD FREUD SAY?

Stroll Down Freud's Mental Path to Profits

By Denise Shull

Every experienced trader knows that success requires developing a plausible strategy for entries and exits – first there's the plan, and then there's the actual trading with that plan. There's no question that this part of the job draws on fairly intense intellectual analysis and decision-making.

Realistically, however, as the index trader says, success demands more than logic. Even black box systems subtly involve fear and greed in that emotions color the decisions to “go live” or keep testing. At a minimum, egos and biases alter the development and implementation of any system. In discretionary strategies, rational analysis and deliberate action theoretically drive trades, but in practice both suffer from the influences of mood and attitude.

Everyone says, “Keep your discipline.” Yet despite varying degrees, all traders sooner or later confront the reality that their feelings can derail that discipline. One of the more shocking examples comes from traders who make money, lose it, make it back, lose it again and never stop the cycle. A lot has been written about this; yet traders of all skill levels still struggle to fully solve the problem.

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Yes, the much maligned field of psychoanalysis offers a powerful perspective. In short, the answer comes from figuring out the pattern to conscious, preconscious and unconscious feelings. With an idea of the scenarios, a trader can identify the “template experiences” behind them and then disassociate the feelings from the trades.

Essentially, this is because the solution resides not in barricading the feelings of fear, elation, stupidity or whatever, but in sending them an invitation – rather like the adage, “Keep your friends close and your enemies closer.” The steps of modern psychoanalysis – sorting out unconscious perceptions and learning to express any emotion – can provide a mental edge.

This works because of the uncanny nature of hidden feelings. Take, for example, the tendency to hesitate when entering a market position. Usually the general feelings are nervousness, uncertainty or just plain fear. The more valuable insight lies in actually decoding the underlying emotions and associations. Is it anxiety over losing money, over being wrong, over getting in trouble with oneself, over being criticized or over feeling stupid? What actually ends up happening when a good trade isn’t taken? Ironically, the exact results occur anyway. A trader still loses the money he might have made, feels bad about being wrong, gets in trouble with himself, criticizes himself and feels stupid – the exact same list as the reasons for not taking the trade in the first place. It’s easy to see the circular drama here.

If one looks hard enough, it’s not too difficult to find scenarios of thoughts, feelings and actions that happen over and over again. The order might be mixed up – action, thought, feeling or feeling, action, thought – but a pattern will indeed emerge. It might occur over minutes or it might occur over years, as in the case of a terrific trader experiencing a stunning loss. Yet a pattern always exists.

Sigmund Freud first discussed “The Repetition Compulsion” in 1920. He described how some people act not according to what would most likely bring the greatest pleasure or success, but instead, in response to a “compulsion to repeat.” LaPlanche and Pontalis defined this phenomenon as “... an ungovernable process originating in the unconscious. As a result of action, the subject deliberately places himself in distressing situations, thereby repeating an old experience, but he does not recall this prototype; on the contrary, he has the strong impression that the situation is fully determined by the circumstances of the moment.”

In trading terms, the phrase “he has the strong impression that the situation...” translates to “if I could just find the right strategy,” or “if that unexpected news event didn’t again cause the fast market to blow through my stop,” or “if I could just eliminate the spontaneous trades” or ... or ...or.

NEUROSCIENCE SAYS

How can this be? The brain and how it develops give us some clues.

In very basic terms, the brain has three major sections – the brainstem which controls things like heartbeat and digestion, the sub-cortex which lies above the brainstem and in the middle of the head, and the cortex which processes what we think of as complex thought and perception. Development starts with the brainstem and progresses through the highest areas in early childhood and beyond. Two primary structures, neurons and the spaces between them, called synapses, form networks that extend throughout the brain and provide the core infrastructure.

During growth, each area greatly influences the development of the next higher one. Therefore, functions learned and managed primarily by sub-cortical structures, like the amygdala or the hypothalamus, become enveloped within the tasks processed primarily by the higher cortical subsections. The process, however, does not negate the power of the lower structures. By virtue of their earlier development and resulting influence on subsequent growth of the brain, the sub-cortical areas from which emotions appear to emanate hold great sway over the higher “thinking” centers.

If it is hard to believe that intellect can be controlled by a more primitive part of the brain, think of handwriting. When a child first learns to write in cursive, it requires a very deliberate moving of the hand. Later, however, the entire effort to sign one’s name operates well below the level of awareness. Likewise, feelings often operate outside of consciousness, but that doesn’t take away their power. In fact, the opposite is true.

Contrary to popular thinking, the sub-cortex actually is more powerful because the “critical period” for how a person perceives himself happens at the same time as the growth of the neuronal networks supporting his emotional processing. Critical periods, well known in biology, refer to the times when certain conditions are necessary for the brain to develop properly or for when a given function or skill will be acquired.

Allan Schore, UCLA neuroscientist, notes that the orbital cortex – a specific subsection of the highest brain – matures in the middle of the second year when average children know less than 70 words. The core self, he says, is nonverbal and unconscious, and it resides in emotional patterns. Schore also says that the bonding between mother and child specifically changes a baby’s right brain.

One example of how this could happen comes from another group of neuroscientists led by Hiroki Yamada. The scientists showed how an infant’s vision improves at around eight weeks old and creates the possibility for eye contact between mother and child. As in adults, emotional messages, crucial

to the infant's development of its understanding of itself, get communicated through the eyes. For example, if a crying baby irritates his mom, and in her exhausted state she looks at the baby with disgust, the child will absorb that response into his own emerging picture of himself.

Later these early ideas echo in the choices we make for ourselves. The perceptions that originated before we had words for them reflect a baby's interpretation of external events that

say about your performance in school? What did your sisters and brothers do to you? It is important in this exercise to look outside of yourself for the behaviors of others to whom you were close. Just take note of their behaviors and how it might have affected your life and your feelings back then.

The story line in dreams provides another source of information. Don't worry about interpreting the meaning – just think about the scenario of the dream and the typical emotion asso-

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have no actual relationship to our true worth or intelligence. Yet the reverberations remain because they originate within the networks of neurons and synapses that develop before rational thought.

The constant feedback germane to trading offers up a particularly potent reflection of these unconscious feelings. Every tick can serve as an amplifier of a subtle and unheard refrain “singing” about our right to be successful. Consequently, the cure for irrational or impulsive trading choices lies not in a different system or in another resolution to control the uncontrollable, but rather in shining a light into the hidden decisions regarding our success.

IT'S NOT PERSONAL – THE CHALLENGE OF BEING HUMAN

Realize that no matter how many mistakes have been made, their root cause means nothing in relationship to one's capacity to ultimately be more successful. Almost all traders have or have had emotional stumbling blocks, so it's nothing personal; it simply is part of the challenge of being human in an environment where one's success or failure virtually flashes across the screen in milliseconds.

Second, traders need to ignore the voices, inside or outside, that say “you must control your emotions, or you must do this or that” – things that one finds difficult to do. Listening to them only causes the trader to feel worse about himself. It accomplishes nothing except – maybe – making more impulsive trades or not trading at all. Ultimately, the root feelings generating the problem always fall into the category of “I'm not good enough,” and supposed solutions that join that chorus won't stand the test of time.

Ask questions. What were the important events of your childhood? What are your most vivid memories? What happened to you during these times? What stories does your family tell about you? Taking it to the next level, ask how your father treated you when you were little. What did your mother

ciated with it. It doesn't matter if you are the central character in the dream or not. The players in a dream can be anyone; the feelings involved often reflect your own unconscious.

If, by chance, you were separated from your mother early in life, through adoption or illness or divorce, take that into account, as well as the likely behavior of whoever took care of you. Despite the reason for separation, an infant knows that its mother is gone and blames himself. This creates a particular challenge in retaining profits for two reasons – the inherent supposition of unworthiness that occurs (“My mother isn't here – therefore, she must not love me – therefore, I really must be awful.”) and the completely unacceptable feelings of hatred over being “rejected” that simply must be denied in order to function (“I am so lucky these nice, wealthier, smarter people adopted me that, of course, I have nothing but thankfulness for what happened to me.”).

SEEK AND YE SHALL FIND

Regardless of what you find, search for a match with your emotions in trading. Look both at specific trades and the overall endeavor. Think of today's trading choices and the feelings they bring up as an analogy to the emotions and thoughts of an earlier time. Look particularly at the recurring scenarios. It could be how the neighbor kids treated you or what your teachers usually said about you, but these memories provide the bridge between our adult experiences and emotional outlines formed in infancy. The insight will begin to unravel the labyrinth of hidden thoughts and feelings behind unprofitable trading.

Here's how it works. One day, after a string of good day trades in Merrill Lynch (MER), I let a short go too far against me. Anyone who trades MER knows that the bid/ask spread gets wide and can jump around in a matter of seconds. Hence, I rationalized. During the trade, I didn't feel bad or even very worried. I did manage not to talk my-

self into taking the trade overnight and covered for a rather large loss. Afterwards, I felt terrible – not just annoyed, not just bad – but awful.

Putting what I preach into practice, I focused on the substance of what I felt. Beating myself up, I realized the basic emotion was shame over being so stupid. “You idiot, you know better,” resounded in my head.

Then it hit me! What had actually happened from a psychoanalytic point of view is that as I let the stock trade through my stop, I unconsciously felt stupid. I wasn’t aware of this in real time. I was counting on MER’s erratic pattern to save the trade. In not being aware of it, I “acted it out.” In other words, I indeed acted stupid by letting it get worse. If during the trade I had known about the underlying feelings, I would have been able to separate the trade from the feeling and implement the right exit.

NOT FOR THE FAINT OF HEART – BUT NEITHER IS TRADING

Of course, “do-it-yourself” psychoanalysis isn’t exactly easy. Going it alone, you can certainly make progress – particularly if these ideas strike you as mumbo jumbo – but like everything, it is easier with a guide. On your own, you can find a pattern to the PRE-conscious “voices in your head.” Finding the UN-conscious, by definition, gets more than a bit tricky. Psychoanalysis hasn’t marketed itself, so finding a good teacher might require a bit more work, but it falls in the category “you get what you pay for.”

Furthermore, Hyman Spotnitz, founder of Modern Analysis, extended Freud’s work to the point where he cured cases of psychological disturbance that many believed incurable. One of his best tools revolves around the reality of anger and frustration. By helping clients deal with these shunned feelings, he achieved remarkable results. Therefore, the ultimate clue to solving self-defeat lies in working with negative emotions that usually meet with criticism and punishment.

Once you become friendly with the chorus “singing” about your lack of worthiness to make or keep money, the more difficult but powerful step involves learning to get mad. This works because as we grow up we are taught that getting angry is bad. We don’t actually stop getting angry, though. What really happens is that we take those feelings and turn them onto ourselves. This inversion, if you will, then gets played out in the actions that limit our successes.

If there is one thing that distinguishes “Moderns,” it is the techniques used to turn unconscious rage into energy for success. We actually like it when our clients get angry at us. Invariably the patient becomes more successful when he starts to tell his analyst how much he doesn’t like that analyst, that the analyst has let him down, isn’t doing his job or any other version of expressing dissatisfaction. This contrasts

with what happens if you tell your parents, spouse or boss this stuff. In one form or another, you get punished, right? Or at least you expect to.

A talented therapist, on the other hand, will react much differently. The atypical response paves the way for more primitive and unconscious anger to come to the surface. As it does, it can then be put into words. The process of expressing it – without punishment or retribution – unblocks unconscious emotional doors to success.

Short of hiring a coach trained in modern analysis, try writing out whatever feelings of anger – at whomever – you can come up with. Just allow them to be. No one has to know, and nothing has to be done. Another idea – instead of reading or listening to music while working out – focus on the feeling in your gut. List out in your head who or what you feel mad at. Expect to find excuses and rationalizations that prevent the process. The admonitions to “be a good boy (or girl)” or to “be positive” hold enormous power over us.

Ultimately, the objective is to be able to put any and all unconscious feelings into words. Look for two themes – first, how you beat yourself up, and second, who or what you wish you could beat up. If you can find those feelings and can accept and put words to them, your trading results will improve. It will become easier to take the next step – whatever that is in your particular situation.

Conceptually, the strategy mirrors the idea in some martial arts – using an enemy’s strength to your advantage. We think that we have to control our emotions when, in reality, they are not controllable. They consistently rear their ugly heads in the things we do that aren’t according to our plan. The act of being able to “say anything” destroys their power to covertly influence decisions. As insidious powers weaken, the impulses go away, and clear-headed thinking takes charge.

Then, finally, as the hidden emotions lose their power, the enormous preparation you have done for profitable trading can be implemented with consistent discipline. ■

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