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Emotions at work in finance

By Naomi Shragai

Workers in the sector should recognise how feelings can influence their decisions

When feelings run high: failure to manage emotions can lead to financial loss, paralysis and burnout

Rational and objective: that is how business people like to see themselves, believing there is no room for emotion in their decision making. Yet whenever human beings find themselves in the grip of intense feelings, such as greed or fear, it is these, rather than rational thoughts, that influence the choices they make.

Whatever we think, emotions always play a part in our decisions. Understanding this can help businesspeople make better choices and achieve better results – particularly in the uncertain world of financial markets.

Feelings can be a useful guide to making decisions. Optimism, for example, is necessary, but too much can mean crucial realities are ignored. Desire to succeed can be so powerful as to repress the risks involved. Fear is appropriate when caution is called for, and excitement is necessary to motivate staff and move business on.

It is how such feelings are managed that ultimately determines if one is hijacked by them or uses them as a guide. In the former case, the result may be financial loss, paralysis or burnout, whereas the latter can help in making more reasoned choices.

For one middle-aged man with more than 25 years' experience in trading for an international bank, it was an overwhelming desire to be seen as the "top guy" and to gain the acknowledgment of being right, rather than the financial rewards, that drove his decisions on the trading floor. This resulted in his failing to think through certain crucial management and trading decisions, which ultimately led to a substantial financial loss.

He explains: "I wanted to take the existing revenue stream and push the platform to the next level. I upped the risk profile and got it massively wrong. I blinded myself because I was eager – it's a huge ego boost when you're in that position that people have to come to you.

"It's the recognition – it has nothing to do with the money. I wanted to show management that I was made of something," he says.

His childhood background reveals an emotionally neglectful home life, where he suffered repeatedly from a sense of disappointment from his parents. Although outwardly he became successful, first academically and then financially, he was never able to rid himself of the feelings of worthlessness and consequently was "driven, obsessed with the need for constant affirmation".

It was the "hit" of a good trade that offered him temporary relief from feelings of self-loathing. The highs, however, were frequently followed by crashes, and the cycle left him more depressed and obsessed with "winning" at work.

Marios Pierides, a consultant psychiatrist in London, has extensive experience of working with traders who have sought treatment because they were unable to manage the extreme emotional volatility associated with their work. He says: “The ethos of the City is to make as much money as you can and get out – ‘I’ll hold my breath for five years and then come out the other end with my Porsche and my penthouse’. But many people don’t come out with this dream at all. It is like swimming under water while holding your breath in a sea of sharks.”

The most common problem traders bring to him is drug and alcohol abuse, where they use substances either to energise themselves after burnout or to wind down from a high. “It’s not just cocaine and cannabis, but prescription and over-the-counter drugs as well. When the crash happens, the drugs take it away. Relationships suffer, kids suffer, families are ruined. Ultimately, it shortens working lives,” Dr Pierides says.

Also common are depression and anxiety, which Dr Pierides says can impair capacity to make decisions.

He says: “You either think too slowly so that you don’t process information as quickly as you should; [or] the other option is that you just make bad decisions with the obvious consequences.”

He has observed that female traders seem more emotionally mature and have fewer issues than their male counterparts. Typically, women are more expressive, while men tend to keep their thoughts and feelings to themselves. He adds: “Women are much more collaborative in their approaches, while men are more competitive.”

Two women who claim to exemplify this view are Fatima Ghellab and Manuela Robson, founders of Fat Man FX, a small foreign exchange trading firm in London. Ms Ghellab says: “We encourage ourselves to think out loud and voice our emotions – once it’s out there, it’s not a dangerous suppressed emotion any more. It diffuses the intensity of feeling and the partner takes over if necessary.”

Tales that fund managers tell themselves about decisions

It is not only traders who must deal with the strong emotions associated with investing. Fund managers also make decisions in a climate of uncertainty. Managing their anxiety becomes crucial if they are to muster the conviction necessary to invest.

David Tuckett, a psychoanalyst and professor at University College London, is the author of *Minding the Markets: an Emotional Finance View of Financial Instability*. He draws on psychoanalytic theory to explain how, under uncertain financial conditions, fund managers are required to outperform each other despite the fact that it is impossible for everyone to beat their peers.

According to Prof Tuckett, all forms of financial management stimulate emotions. There is excitement about the prospect of gain, and anxiety about potential loss. His research, involving interviews with more than 50 fund managers in three continents, reveals that in order to cope with these anxieties, they must create convincing narratives. It is by ignoring information, often unconsciously, that their conviction to act is fuelled; in fact, the reality is clearly uncertain and full of financial ambiguities. He says: “The great thing about a story is that it can smoothly get rid of information. Stories create a believable picture of the imagined future by providing grounds for being attracted to the option for some gain, while repelling any potential doubts about loss.”

He describes how, when fund managers make a selection for their portfolio, they enter into a dependent relationship with their investment, not unlike a love affair.

“Fundamentally one has to enter into an emotional relationship with one’s stocks if one is going to accept the risk to invest. It’s a fantasy, it’s an idea of something which is more than realistically possible.

“A good analogy would be the way we idealise our romantic partner, which enables us to make the kind of commitment necessary to engage and marry. Of course, you start with the great love and then gradually it becomes more realistic.”

The writer is a psychotherapist and this article is based partly on her clinical experience

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