Tuckett, David – Minding the Markets

Palgrave, 2012, [Behavioural Finance] Grade ★★★★

Fifty-two portfolio managers placed on a shrink's couch, can that make a useful book? It sure can. Award winning psychoanalyst David Tuckett has an initial training as an economist which creates an unusual and fortunate cross pollination of knowledge. While finance and psychology hardly is a novel combination, the twist of psychoanalysis brings something new as Tuckett analyzes the nature of the relationship that PMs have with their investments and draws the conclusion that traditional financial theory is lacking major ingredients. Don't we know it!

Tuckett is struck by the fact that the PMs spoke about buying and selling shares as initiating and ending emotional relations and they did this under heavy influence of their social and institutional environment. What he found was that even though investors were swamped by information and tried to be rational they couldn't make a purchase decision on objective grounds since the future is unknowable. The key was how they still made themselves confident enough to act by creating stories that portrayed some aspect of security as well as the prospect of excellent returns. In a situation of genuine uncertainty and anxiety, confidence sufficient to commit had to be created. Stories gave a reason to act to buy a stock and even more importantly to stay with it. In a sense the market is then the process of trading in competing and ever changing stories.

When the PMs bought their shares they generally thought they had an information advantage but as soon as they were owners they instantly started to worry that they were in an information dis-advantage. Tuckett characterized the process of owning shares as a long distance relationship where you are emotionally dependant on someone who you can only have distorted information about and saw the same type of love and hate feelings towards shares for their ability to satisfy and frustrate as in love relationships. The management of companies was often seen as deputies for the shares and was the "*target for the outlet of a great deal of feeling.*" One way of handling the anxiety of ownership is to seek the companionship of likeminded, to give up individual thinking and decision making and instead join a community of what Tuckett calls groupfeel. The snowballing price effect of a growing community is tremendously stressful for those who underperform and risk their jobs in the process. According to Tuckett this creates an open economic system with bounded rationality and reflexive interactions.

It's not light reading the author serves us. The book resembles a 200-page paper on social psychology; you need a basic understanding of the thought process and concepts of the area to find it fluent. Still it's a worthwhile book to read as it is sufficiently different and it resonates well with day to day life of an equity PM. There are traces of capitalism criticism light á la Stiglitz-Krugman, which is fine in itself but as the text is meant to be an academic work it somewhat tarnishes the impression of objectivity. In my opinion there is also a certain amount of von oben-attitude in the author's writing where the PMs are seen as lab rats trapped in a process which they do not have the ability to see beyond, at the same time as Tuckett not only has the ability to read their psychological state but also knows that shares follow a random walk and thus the work the PMs do is pointless to start with. Not all of the above is necessarily true.

The findings are portrayed as brand new input to how to define economic theory. In reality anyone who has read his choice of books on behavioural finance, complexity theory and bubbles such as *Extraordinary Popular Delusions* […] will have drawn similar conclusions. Yet, the book does add new perspectives as most insights in behavioural finance come from psychological experiments done on either students or volunteers in an academic setting or on patients suffering from some sort of defect. Hence, it's good that Tuckett target real PMs and the psychoanalytical angle also give the dish a slightly different flavouring than most behavioural finance texts. Even though the conclusions might have been similar it could have been valuable to interview other than equity PMs, especially as Tuckett draws conclusions to the recent financial crisis and that didn't originate on the stock market.

The book presents one small piece of the puzzle in our understanding of markets. Even if Tuckett hardly presents a new economic theory this is good enough.

Mats Larsson, December 4, 2012