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BOOK REVIEWS

Review of *The Geography of Thought: How Asians and Westerners Think Differently and Why*

Robert A. Olsen

The Geography of Thought: How Asians and Westerners Think Differently and Why, Richard Nisbett, 2003, Free Press, New York, 263 pp.

Imagine that you have before you a document containing the pictures of a chicken, a cow and a patch of grass. You are now asked to state which two objects most belong together. If you chose the chicken and the cow, you think like the typical Westerner (of European culture). If you chose the cow and the grass your choice is more typical of an Easterner (of Chinese, Japanese or Korean culture). In this scholarly and intriguing book Professor Nisbett discusses how choice patterns reflect Westerners' tendency to categorize the world by object attributes (chickens and cows are animals); whereas Easterners focus on relationships and consider situations from a more holistic perspective (cows eat grass). Using evidence from an extensive body of research, the author proceeds to demonstrate that these alternative ways of perceiving and organizing the world lead to frequent and significantly different choices by people who are biologically and educationally identical, but from different cultural backgrounds.

The author begins the book with a brief comparison of ancient Greek and Chinese philosophy and discusses how the western world view, and the scientific method in particular, is based upon Greek thinking. Specifically, the Greeks saw the world as fundamentally static and unchanging. This allowed them to question which properties of an object made it what it was, apart from the environment in which it was embedded. In contrast, the Chinese world view emphasized the complex and changing nature of the world and how objects might fit into multiple categories, depending upon the specifics of the situation. In addition, a unique Chinese concept was the idea of "resonance" or how objects interacted not only with other objects in their immediate vicinity but also with others much more distant in time and space. The current emphasis in science on Chaos, Complexity and the underlying concepts of Emergence and Networks represents a reconsideration of the Chinese concerns about the limitations of a science which is grounded on the assumption of the infinite divisibility of matter and a "divide and conquer "approach to scientific investigation. The author notes that most western scholars are not used to creating the broad range theories that a more eastern based science requires (Behavioral Finance ?), and that they are almost " allergic" to such an approach.

The body of the book is devoted to a discussion of significant differences between the Western and Eastern thinking and the implications for judgments and decisions. A few of the many noted important differences and implications are as follows.

- Easterners tend to focus on cycles but believe that there is continuity in behavior over the long run. Thus they tend to be less prone to the projection of trends and are less surprised by reversals in the short run. However, they expect that past behavior will be repeated, although not necessarily in an identical fashion.
- Because of their belief in the complexity of system behavior, Easterners tend to put less faith in forecasts and exhibit less overconfidence than Westerners. In addition, they are more likely to be interested in and more aware of less obvious causal factors (those which lie more in the background) than are Western decision makers.
- Because of the Eastern emphasis on strong and harmonious personal relationships, Eastern decision makers will be more likely to follow convention. In addition, they are more likely to place greater emphasis on the value of trust, as opposed to technical com-

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petence, when relying on the services and advice of others.

• Finally, Easterners are less accustomed to using formal rules or logic in making everyday decisions. This is likely to make them more susceptible to hindsight bias (ability to" predict the past") but less susceptible to desirability bias (wishful thinking).

Although the author never specifically addresses the applications of Eastern and Western thought processes to purely financial decisions, the implications are obvious and the book contains a "bushel" of Behavioral Finance research topics.

The author concludes the book by describing the large differences which exist between Eastern and Western thinking across disciplines, such as Medicine, Law, Management, Religion, Science and International Relations. He summarizes the strengths and weaknesses of both approaches and he suggests a more integrated approach to thinking and decision making.

Professor Nisbett is a pioneer in the field of judgment and decision making. He coauthored one of the seminal texts investigating the use of heuristics, and he documented the existence of regular and predictable biases among decision makers. It was because of this early research, combined with his experience teaching Asian students, that he became aware of the need to carefully investigate the role of cultural influence in thinking and decision making. With this book Professor Nisbett has again provided us with a concise, unique, and extremely well written review of another important decision related issue.

Review of *The Trading Athlete: Winning the Mental Game of Online Trading*

Richard L. Peterson

The Trading Athlete: Winning the Mental Game of Online Trading, Douglas Hirschhorn, 2001, John Wiley and Sons, New York, 288 pp.

The last decade has seen a rapid growth in the market for trading psychology "self-help" books. The internet bubble reinforced the public impression that markets are driven by psychological forces. Given the increase in day-trading via online brokerages, it is surprising that *The Trading Athlete* (TTA) is one of the few trading psychology books to extensively address the unique experiences of online traders. Investors and traders are unavoidably affected by the pressures of their daily work. Day-traders, in particular, are susceptible to frequent performance feedback, the need to make rapid assessments and decisions, the necessity of exhaustive preparation, and constant intra-day performance pressure. These characteristics of day-trading are more similar to competitive athletics than to long-term investing.

TTA expertly addresses the psychological challenges of day-trading from a sports psychology perspective. Fortunately sports psychology is systematic in its approach to performance optimization. The authors include a sports psychologist (Shane Murphy) and a trading coach/former athlete (Doug Hirschhorn). Murphy served as a psychologist for the U.S. Olympic Committee and guided the mental preparation of five Olympic teams. Hirschhorn traded securities at the CME and CBOT for seven years and is a former Division I athlete. Murphy now consults with brokers and traders, while Hirschhorn is the director of trading psychology at Schonfeld Securities, LLC.

The book approaches its topic in a disciplined and formulaic manner. While this approach facilitates learning, it may be too dry for some readers. The book's extensive worksheets are reminiscent of popular self-help books for the treatment of depression and anxiety disorders. Fortunately, the cognitive-behavioral therapy (CBT) approach evident in the books' format has been thoroughly validated. The authors prompt readers to identify and label their maladaptive thoughts and beliefs. Readers are also encouraged, via worksheets, to examine the relationships between their thoughts, feeling-states, and trading behavior.

Richard L. Peterson attended the University of Texas at Austin from 1991 to 1995 where he earned a B.S. in Electrical Engineering and a B.A. in Plan II Liberal Arts. He worked for one year as a partner in Intelligent Investments. At Intelligent Investments he designed neural network-based stock-index trading systems and placed futures orders based upon system forecasts. Dr. Peterson attended the University of Texas Medical Branch from 1996 to 2000 where he received the Ford Award for Excellence in Psychiatry and earned a doctor of medicine degree (M.D.). He finished his internship in the psychiatry residency program at the San Mateo County Health Center in June 2001. He is a licensed physician. At present he continues as a psychiatry resident in San Mateo County, a collaborator with the Stanford Affective Neuroscience group, a director of Market Psychology Consulting, and an associate editor of *The Journal of Behavioral Finance*. Since the age of 18, Dr. Peterson has actively managed his own stock and commodity investment accounts, and since 1999 the accounts have been managed with psychology-based systems.

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