

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.

Requests for reprints should be sent to: Richard L. Peterson, M.D., Market Psychology Consulting. Email: Richard@Peterson.net

Another approach the authors introduce into their work is neurolinguistic programming (NLP). NLP is an approach used by such self-help gurus as Anthony Robbins. Using NLP techniques, one's emotional associations are examined and modified. For example, traders typically feel more anxious and less confident after a loss. Traders are instructed in techniques to change their associations with the experience of loss from blaming and despair to acceptance and opportunity.

Essentially, TTA is organized as a sports-oriented CBT self-help book for traders. Anecdotes from sports psychology are easy analogies to the trading experience, and the authors make abundant use of sports metaphors with the spectacular (and rare) effect of maintaining the reader's interest throughout crucial sections of the worksheet exercises. The authors subtly weave psychological strategies from CBT, narrative theory, and NLP into their presentation in an entertaining way.

Two other excellent trading psychology books delve deeply into the mental process of trading: *The Way of the Warrior-Trader* and *Trading in the Zone* (Mark Douglas). Other classics such as *Trading for a Living*, *Reminiscences of a Stock Operator*, and Jacob Bernstein's *The Winning Edge* and *I.Q.* incorporate discussions of technical trading strategies alongside their interesting discussions of market psychology. TTA, however, is easy to read, engaging, and focused solely on psychology.

TTA teaches the reader to develop and maintain psychological skills. In particular, readers learn the skills necessary to manage themselves in adverse trading environments and to develop and maintain viable goals. The first three chapters of TTA discuss motivation, goal setting, and confidence. Helpful strategies for dealing with losses, reversing self-criticism, and energizing within high-pressure situations are presented in chapters four and five. Techniques for overcoming trading injuries and identifying and stopping revenge trading are given in chapters six and seven. Concentration, mindfulness, and the principles of happiness are emphasized in chapters eight and nine. Chapter ten and the appendices review the material presented and provide worksheets for continuing many of the exercises scattered throughout the book.

The authors note that motivation is essential to maintaining any activity. If a trader's motivation is internal and based on the desire to be excellent at trading itself, then it is more enduring. Motivations that are external, such as the desires to make money or to gain status, are inherently unstable since they lie outside one's control.

Goals are essential for the successful trader. The authors distinguish effective goals as those that are achievable, strategic, measurable, controllable, flexible, and positive. Worksheets and examples are provided, as with most other sections of the book, to provide guidance in goal creation.

Confidence is fundamental to success. The fear of failure is cited as the primary enemy of confidence. Fear of failure impairs the ability to learn from mistakes: "Only through failure can an athlete learn the vital lessons necessary to eventually become a consistent winner." Seeing failure as an opportunity to learn is a necessary attitude. Both adjusting body posture and establishing positive routines are important and controllable methods of restoring confidence after a performance slump.

Resilience is a learned skill. Patterns of losing trades must be dealt with immediately, or one's trading career will naturally end. As is emphasized in the limited poker literature, the disposition effect is one of the most financially damaging biases. The authors analyze the psychological basis of the disposition effect, and they provide suggestions and exercises to reinforce "cutting your losses short."

Positive self-talk, techniques for maintaining a positive attitude, identifying negative thoughts, and replacing negativity with productivity are also addressed. The authors emphasize that the ability to be critical of oneself without being negative is found in most successful people. Negative thought patterns and habits should be identified objectively and then worked through productively and positively. The danger of critiquing one's behavior is its implied self-disapproval. Maintaining a positive frame is necessary to all self-improvement work, and the fundamental component of positive framing is realistic assessment and acceptance of oneself. Unfortunately, many would-be traders have low self-esteem. This intrinsic low self-regard actually fuels pathological trading as they attempt to bolster their self-esteem via external successes in the market.

The authors note that successful athletes learn to energize themselves, rather than get stressed-out, in high-pressure situations. That little voice in our heads that gives us a running commentary during our daily lives can facilitate success if it is trained properly. When its commentary is negative, it creates lethargy, but when positive, it energizes. The authors recommend thought interruption (yelling "stop!") or taking "time-outs" when negative patterns of self-criticism become overwhelming. They then recommend replacing the negative self-talk with deliberate, realistic, and positive self-talk. As in most other sections of the book, the authors give detailed instructions with practice worksheets.

Trading for revenge often occurs if the market is being used as a supporter of one's self-esteem. When the market does seem to go against every trade, it is crucial to practice intense self-restraint. Over-trading and other impulsive acts are common when we feel persecuted by the market. Loss of emotional discipline is one of the greatest dangers to the accumulation of trading capital—it can obliterate a year of profits in a day.

The authors assert that, "online trading athletes who experience fear have lost their competitive edge." While the authors suggest numerous preventive and intra-day relaxation techniques (breathing and physical exercises) to manage anxiety during trading, they rightly suggest that traders who are chronically unable to manage their anxiety may be in the wrong business.

To maintain concentration when surrounded by so much available information, traders are advised to stick to the fundamentals. Whatever few pieces of information are consistently useful to their trading should be monitored, but extraneous information flow (à la CNBC) is not helpful. Traders typically lose their concentration because of rumination about the past, worry about the future, or unhappiness with the present. The cause of the loss of concentration is not the past or future event itself; it is how we react to our awareness of that event. The development and use of performance cues—simple, positive phrases that prompt one to refocus—is facilitated with worksheets. Other suggested methods of refocusing include staying in the "flow" and mindfulness techniques.

Maintaining a sense of "flow" in our activities is essential to both excellent performance and a sense of happiness. Tasks that promote getting into the flow have several characteristics. They are challenging, merge action and awareness, have clear goals, provide immediate feedback, stimulate total concentration, allow a feeling of control over action, prompt a loss of self-consciousness, and transform time perception. One of the biggest threats to being in the flow is regret. Many traders feel angry and regretful after making mistakes, but these attitudes are counterproductive. These attitudes are close companions of worry about the future and are similarly destructive.

Probably the most important section of this book is the discussion on enjoying the moment. In order to lessen regret (about the past) and worry (about the future), one needs to maintain focus on the here-and-now. A simple strategy for staying in the here-and-now includes identifying when you leave the present, stepping

away and taking some time to express your frustrations, writing down at least one thing you learned from the mistake, and taking a deep cleansing breath before getting back into the game. Identification is the most difficult part, and initially it will not occur until several bad trades have been made (and enough pain is felt). If you cannot return to the here-and-now using the strategy above, then stop trading until you can.

Always remember to focus on your goals. A lack of self-restraint regarding distractions is damaging during the trading day. Keep your trading statistics in terms of "points" and "ticks." Thinking in terms of dollars is distracting and pulls one out of the here-and-now. Remember that opportunities to make money will always be there. If you find yourself stuck in the past or future, avoid getting discouraged. Weaknesses are an opportunity to learn. Even great traders make errors. Avoid the hope, wish, and pray technique. Focus on the can, do, now.

In summary, TTA is one of the best books on trading psychology ever written. The book is written in an interactive format with worksheets distributed throughout. TTA is ostensibly targeted to online traders, but its concepts and exercises are useful to all classes of traders and investors. The book is written in a straightforward style that is rare among trading psychology books. The content is well-organized and concise.

The authors' focus on the straightforward cognitive and behavioral aspects of trading psychology leaves no room for discussion of the deeper motivations of traders. This is not a serious flaw, as no book, except perhaps *Trading for a Living*, has ever discussed the unconscious motivations of traders with clarity. However, this omission may be the reason why many traders will finish TTA feeling somehow dissatisfied. Readers may notice that their unconscious resistances to self-awareness work to prevent their finishing the worksheets or utilizing the book's tips for more than a few weeks. Those traders who will experience the most utility from TTA are those who are on a clear path to success, needing only a performance tune-up.

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