

Coming to Your Trading Emotional Rescue

Check out these coping insights for traders.

BY ALDEN CASS

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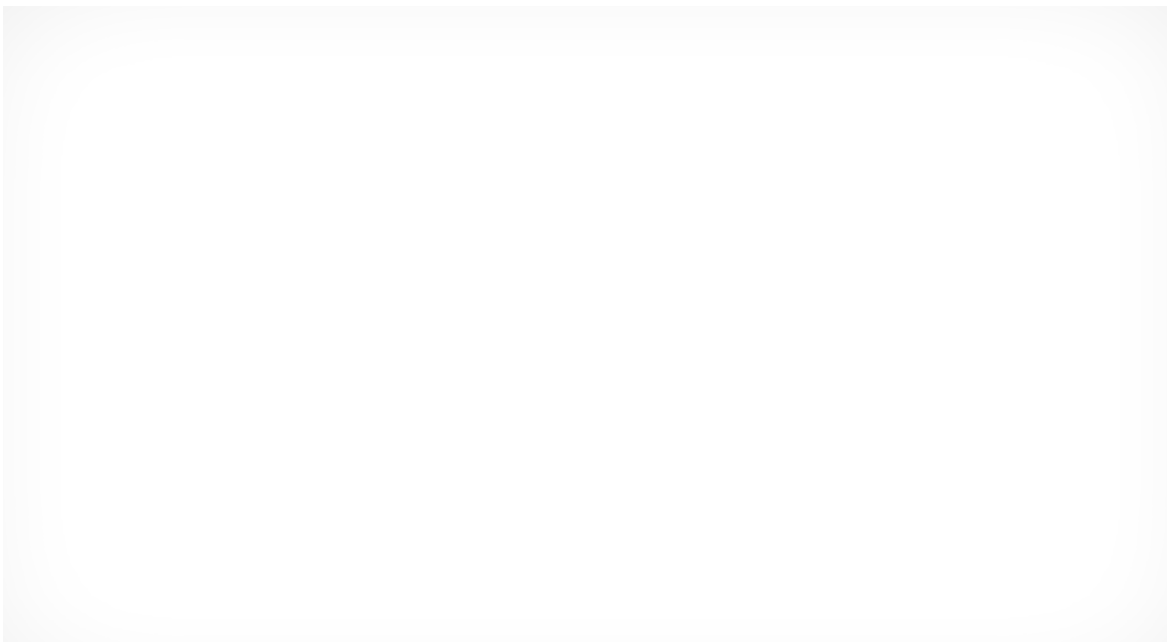
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*Alden Cass, a psychologist, joins us today as a contributor on our free, flagship site. Cass will write two columns, one that delves into how behavior and emotions affects investing -- which debuts today -- and the other a health column specifically for men. Please welcome Alden, and as always, **let us know what you think.***

I have always reaped the rewards of having a doctorate in psychology when it came to success in managing my personal investments. Through my work with hedge fund traders, daytraders and prop traders, I have honed my own investment strategies.

In essence, I have learned from the best, and I now practice what I preach when it comes to preventing emotion from creating "noise" in my head prior to making an important investment decision. I have witnessed the impact of emotion on investment strategy, risk appetite and decision-making ability.

Mirroring my work with traders, I plan to offer practical solutions for remaining emotionally disciplined and objective in short- and long-term investment strategies. This is especially important during market downturns or periods of poor performance.



In each column, you'll find examples of real investment dilemmas and how emotion can hamper or alter decisions to buy, sell or hold a particular stock. Feel free to email me at twocents@thestreet.com with your investment scenarios that may be fueled by real emotions such as fear, anger, revenge or over-confidence. These and other concerns will be addressed in future columns.

Apple: Using Social Psychology

It was a bitter cold morning in late December 2003, and I was walking to the downtown No. 6 train to my office in New York City. I found myself armed with a heavy overcoat, first-generation iPod, cup of coffee and a briefcase of coaching cases for my afternoon meeting with a local hedge fund. I needed to do my part to keep a group of traders emotionally prepared, hungry and entirely objective.

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(www.catsg.com) who specializes in working directly with individual and teams of senior investment executives, including high-profile CEOs, top hedge fund and prop traders, investors, and financial advisors to help them achieve their financial and personal goals. He works to modify behaviors that are hampering their performance and to give them the mental edge within competitive work environments. He is a licensed clinical psychologist and an expert on the use of psychology in the financial services industry. He has conducted behavioral healthcare studies on retail stockbrokers that indicated that 23 percent of the group measured met criteria for major depression. His research has been presented at both national and international conferences (APA, ICPP). He is a major contributor to columns in On Wall Street Magazine and Traderdaily.com. Cass has also conducted workshops with the Securities Industry Association, Money Management Institute, Trader Monthly Magazine's Peak Performance Workshop, The Wall Street Branch Managers Meeting at the Federal Reserve Bank of New York, and the London Bullion Market Association, the Silver & Zinc Association, the Investment Management Consultants Association (IMCA), and the Investment Products Association (IPA).

He has appeared in the following media: The Today Show, Fox News Live, New York Magazine, Businessweek, Lou Dobbs Moneyline CNN, CNN money.com, CNBC London, Financial Times, London Financial Weekly, Washington Post Radio, NY Newsday, On Wall Street Magazine, E-Trade "On Air," BBC Radio, Reuter's Business Newswire, New York Times, Boston Globe, Absolute Return Magazine.

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(Page 1 of 2)

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I headed down into the subway and spotted "Jim," a prop trader I had befriended a few years back. While we waited for the train, we started catching up on old times and on business. As we talked, I began to notice something very interesting going on around me.

Although engaged in a conversation, I found myself examining everyone on the subway platform, one by one. It was strange, but as a New Yorker, I have come to expect that activities in the subway always have the potential to be entertaining and intriguing. Also, as a psychologist, I am always sensitive to repetitive patterns of behavior that I notice in others.

I boarded the train with Jim and continued to scan the passengers around us. I turned to Jim and said, "Take a look at my white headphones for a second. Now look at the other people on the train. At least 40% of them have the same exact set in their ears."

Upon further review, their headphones were also attached to iPod music players. I told him that when I purchased mine, it was one of the last few remaining at the Apple store, and the lines were piling up outside with tech-hungry customers.

I knew that the current quote for **Apple** (AAPL) was somewhere in the neighborhood of \$21 a share. It was obvious to me that I wasn't the only one addicted to blocking out noise on the train by listening to my iPod. My experience at the Apple store coupled with the overwhelming number of white headphones that I noticed on my daily commute signaled to me that Apple had a bright future.

These were two data points available that were sufficient enough to make me trust my instincts and invest. When I told Jim about my impulsive idea to buy a huge chunk of Apple stock later that day, he laughed and told me that the fundamentals for the company weren't strong and that I should definitely steer clear of the stock.

Finally, we reached our stop with each of us holding a different analysis on Apple's future value. Just one of us would be a whole lot wealthier three years later. Now it's time to see if the Apple iPhone will perform as well if not better than the iPod, so pay close attention to that next.

As you can see, it pays to keep your eyes open and read cues within your social environment. Staying plugged in to the world around you can provide you with the data points that even the best traders might miss. In many situations, just crunching the numbers won't always give you the whole picture.

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