

Making Good Decisions during Challenging Times

The art and science of keeping our heads

Applied Behavioral Finance Group

CFALA

April 2, 2009






*"I feel like Butch Cassidy and the
Sundance Kid.
Who are these guys who just keep
coming?"*

*-- Henry Paulson Jr., Secretary of Treasury
September 13, 2008*

Brain Stress Test

- **Drop in cognitive ability (includes IQ) and ability to control emotions.**
- **Increased activity in amygdala – overly sensitive, heightened, states of emotion.**

- **Not listening**
 - **Over-analyzing**
 - **Stops making decisions**
 - **Makes “emotional” decisions; “flip-flops”**
 - **Makes reactive, short-term, fear-based or anger- facilitated decisions**
 - **Self-satisficing**
 - **Hedonistic**
 - **Attentional blindness.**
- 

➤ **Not listening**

CAP

➤ **Over-analyzing**

TARP

TALF

➤ **Stops making decisions**

Save the Buck Money Market Funds

➤ **Makes “emotional”
decisions; “flip-flops”**

The Financial Stability Plan

Relief for Responsible Homeowners

➤ **Makes reactive, short-term,
fear-based or anger-
facilitated decisions**

**Unlocking Credit for Small
Businesses**

➤ **Self-satisficing**

Fannie and Freddie

AIG

➤ **Hedonistic**

Big 3 Auto in Private Jets

➤ **Attentional blindness.**

\$400,000 Bailout Parties at AIG

Panelists

Michele T. Pato, MD

Professor of Psychiatry and Behavioral Science
Keck School of Medicine, USC

Richard L. Peterson, M.D.

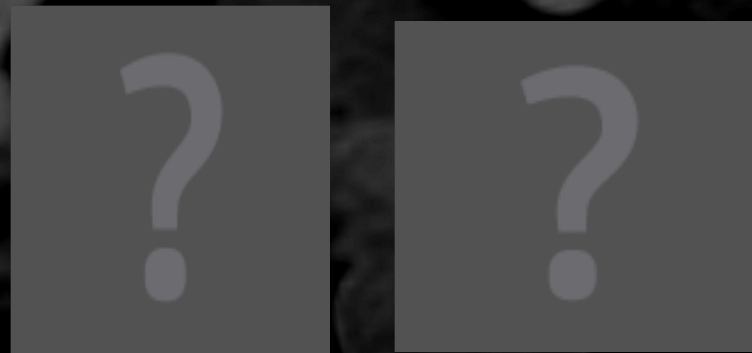
Managing Director
MarketPsy Capital, LLC

Clare Kunny

Manager, Public Education & Teaching Programs
Education Department
The J. Paul Getty Museum

Making Good Decisions During Challenging Times

CFALA
Omni Hotel
April 2, 2009



Richard L. Peterson, M.D.

Akasha Center (Psychiatry)
MarketPsy Capital LLC (Asset Management)
MarketPsych Partners (Training)

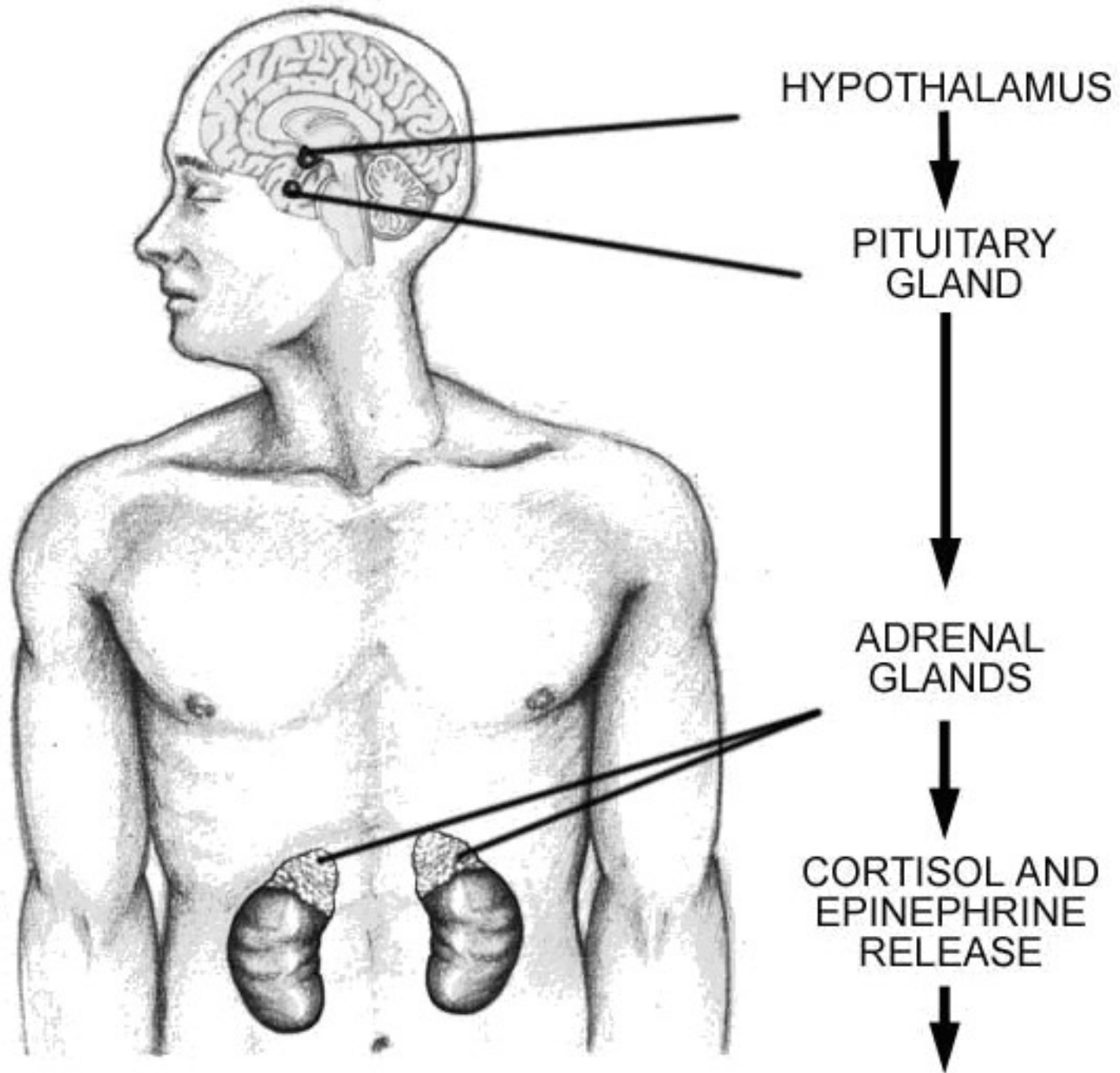
Clinical Stories

- Janet
 - Options Trader
 - Grinding losses
 - Stress
- Ramon
 - Portfolio Manager
 - Relationship difficulties
 - Performance dropped by half

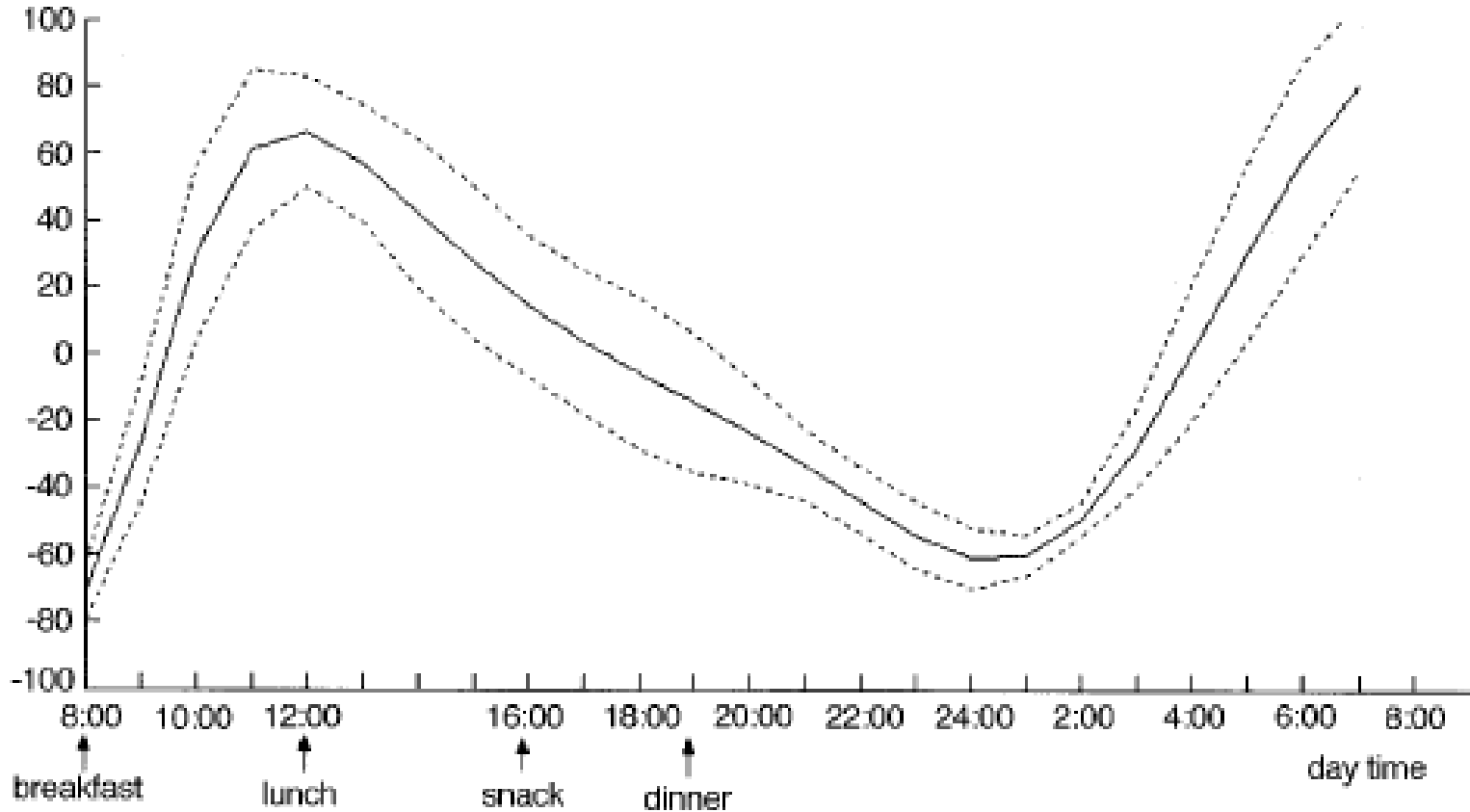


Lessons

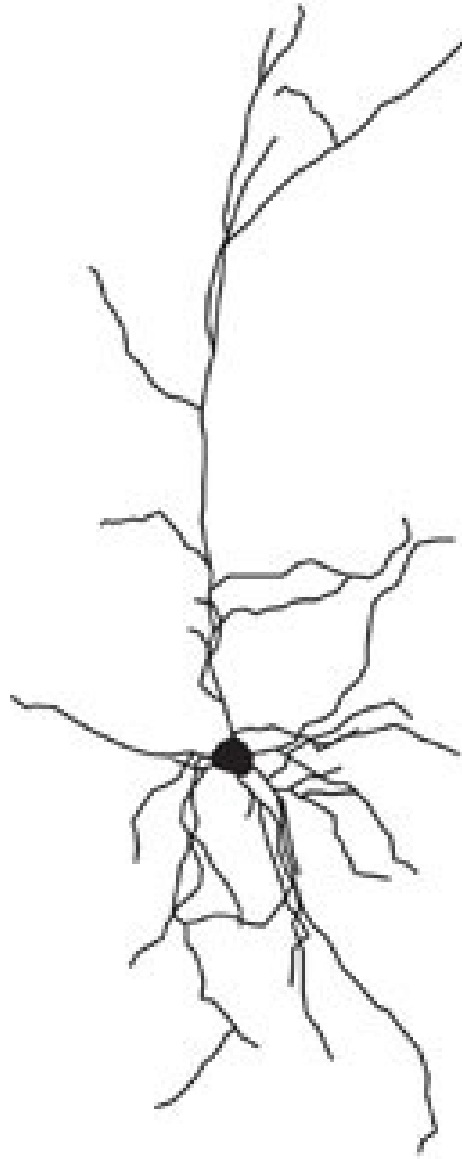
- Our financial decisions can be predictably altered by recent events, developmental experiences, emotional state, social relationships, genetics, and ingested chemicals.
- Stress initiates neurochemical and hormonal cascades that alter decision making.
- At high levels or sustained, stress even alters genetic transcription.



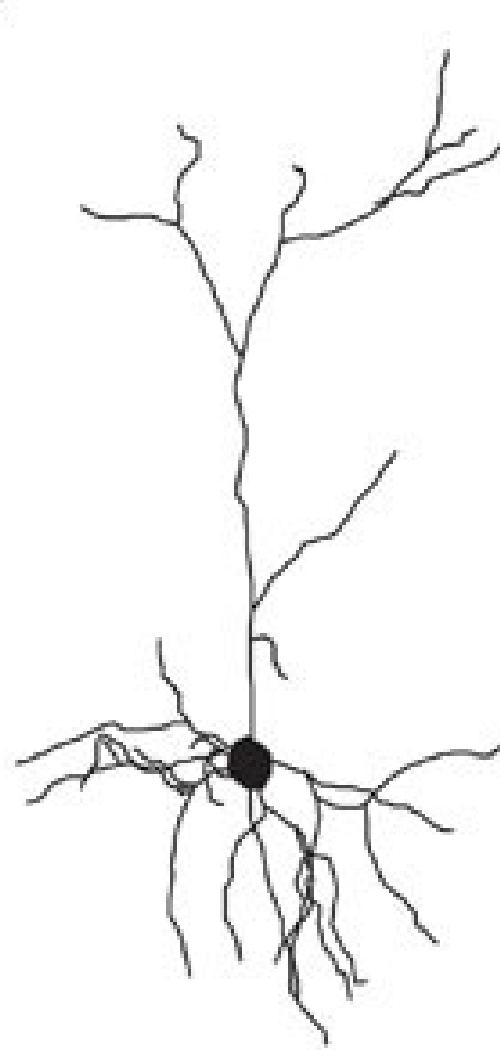
Cortisol (stress hormone) 24 hour daily variation.



- Chronic stress reduces the variability and leads to immune suppression and exhaustion (among other effects).
- There is no time for the body to heal from oxidative damage if stress levels remain chronically high.

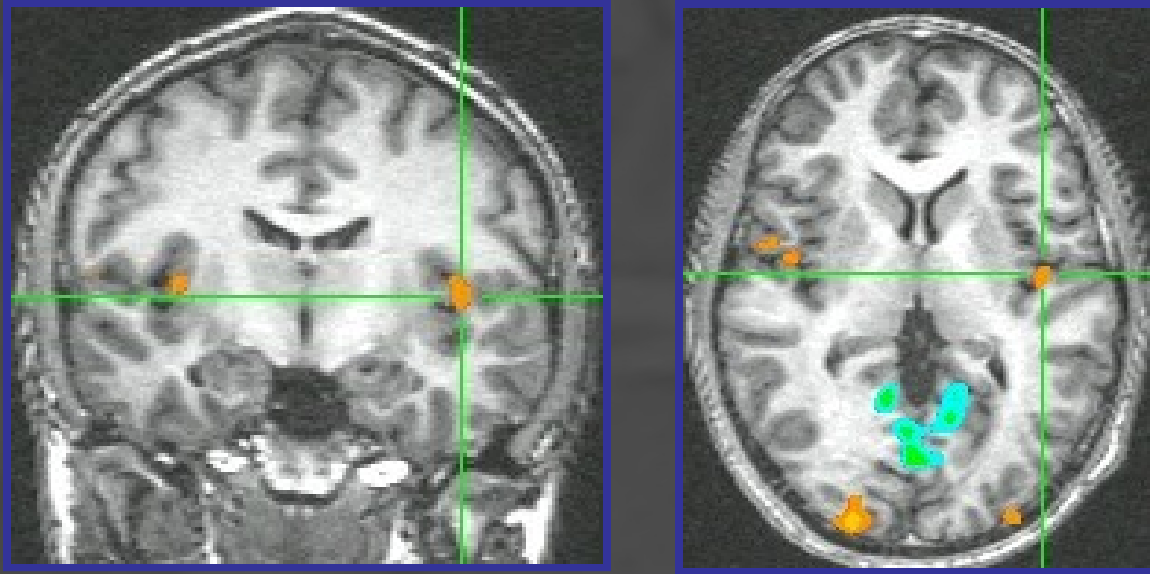


No Stress



Stress

EXCESSIVE RISK-AVERSION



- An area of the brain activated by physical pain, disgust, and financial loss (the insula).
- Activation predicts investment mistakes (risk-aversion errors)

STRESS and DIRECTING THE BRAIN TO CLEAR(er) THINKING

Michele T. Pato, MD

Professor of Psychiatry and
Behavioral Science , Keck- USC

What is Stress?

The process of adapting to challenge

(Friedman+DiMatteo 1989)

Stress Isn't Automatically Bad!!!

- Holmes and Rahe Stress Scale
 - 11 of the 41 life events (stressors) include items like :
 - Marriage
 - Marital reconciliation
 - Pregnancy
 - Change in number arguments spouse
 - Outstanding professional achievement
 - Begin or end of school
 - Vacations, Christmas

Warning Signs

1. Poor sleep- Trouble **falling** asleep ,**staying** asleep, **going back** to sleep
2. Memory, Concentration- “missing” things
3. Impulsivity- **can't wait** to weigh out options
4. Increased Hostility, Cynicism, or **just Impatience**
5. Difficulty Delaying rewards
6. Poor Self Care + Increase Susceptibility to Infections
7. Social withdrawal- friends, family, coworkers, clients

Different Perspectives

“Nothing in this world is good or bad, but thinking makes it so.”

William Shakespeare

Different Perspectives

Personal appraisal of stressful situations

- a) The degree of threat
- b) Perception of control
- c) Previous experiences
- d) Coping resources or options

Stress and Its Effect

While your **Personal appraisal** is most important other things weigh in too, like:

- **Characteristics of the stress:**

Magnitude; Duration; Novelty; Predictability; Temporal sequence

- **Relevant Personal Factors-Body and Brain:**

Biologic vulnerabilities; Response thresholds; Age at exposure; Personality style; Coping styles

Face It Head-on

- **“Remember that the only person you can directly control is yourself.”**
 1. Focus on what you really want?
 2. Ask yourself: what your motives are?
 3. Clarify what you really want?
 4. “How would I behave if it was what I really wanted?”

Some Techniques to Decompress

1. Deep breathing

- 5-8 deep breaths (nose -> mouth) to a relaxed state and stay there 1-2 minutes (close your eyes if you can)

2. Try Reciprocal inhibition techniques

- Imagine and project self into a pleasant relaxing environment. Will help clear anxiety from your mind.

3. Use split screening techniques

- On one side project anxieties and the other add a pleasant set of experiences.
- Linking the pleasant and the unpleasant is a form of Systematic desensitization.

4. Challenge the absolutes in you thinking

- Learn to think about options.
- What's your favorite color between **black** and **white**?

More Techniques

1. **Inspirational reading**-books to help clarify your concept of well being: **Man's search for meaning**Viktor Frankl;**Tipping point**Malcolm Gladwell;**Crucial Conversations**:Stephen R. Cove
2. **Simple changes**-think of a way to simplify **one** feature of work
3. **Physical well-being**-think how your diet or exercise regime can support your work/ life
4. **Focus on ONE trouble spot** -Solutions feel good!!
5. **Time for yourself**- “carve out some alone time”- feel comfortable with yourself- it will help you feel comfortable with others
6. **Get back in touch**- TRY TO RECONNECT WITH **WHAT ATTRACTED YOU TO THE WORK YOU ARE DOING NOW** . DO YOU STILL HAVE PASSION FOR YOUR JOB?

Final thought

Plan for the future but **LIVE** every moment like it's your last.

(Or as Mom would say)

Don't put off tomorrow what you can do Today!!

Art as Solace

Edvard Munch

Anxiety, 1894

Oil on canvas

Munch Museum, Oslo

Edvard Munch

The Scream, 1895

Lithograph in black ink

Clarence Buckingham
Collection

Vincent van Gogh
La Berceuse , 1885
Art Institute of
Chicago

Vincent van Gogh

Still Life with Sunflowers,
1889

Van Gogh Museum,
Amsterdam

Dorothea Lange

*Human Erosion in California (Migrant
Mother)*

American, Nipomo, California, 1936

J. Paul Getty Museum

World Trade Center

Joel Meyerowitz, 1990s



Meyerowitz photographs

Art Institute of Chicago, October 2001



*Terrace Cafe, Central Garden, and Research Institute
Getty Center*

Another exercise- TPS

- I. **Think** (for yourself)- 2 minutes
- II. **Pair** (talk to **one** other person) - 5 minutes
- III. **Share** (talk as a group of 6+) - 10 minutes

This simple exercise has you each write down your own thoughts on an index card to the question/problem raised

Then discuss just with the person next to you and flesh out where you agree and disagree (**Pick a new or different discussion partner**)

Then talk together in small group

“The pool of shared meaning is the birthplace of synergy.”

(SR Covey)