

2 TRADERS

[EP13: Death and Trading](#)

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Walter: Once we start thinking of the fact that we're going to die, it really does change the way we behave, and we might not even be aware of it.

Announcer: Two traders, Darren and Walter pull back the curtain on profitable trading systems, consistent money-management, and profitable psychological triggers. Welcome to the Two Traders Podcast.

Walter: In this episode of two traders Podcast, Walter and Darren talk about arguably the most important motivation in your life, which is the idea of death. We'll explain how this may be related to your trading and what you can do to manipulate your thoughts about death to actually improve your trading. All this and more in the Two Traders Podcast. Welcome, Darren to the Two Traders Podcast. I understand things are going well in your corner of the world.

Darren: Yeah, everything's really good at the moment. Trading's good, feeling's all positive. I can't really find any negatives at the moment.

Walter: Brilliant.

Darren: What about you?

Walter: Oh, yeah it's great. It's springtime and it's really hot. We've got summer weather already here, even though it's not officially summer which is like 35 Celsius. It's pretty hot so the beach is getting ... It's also spring holidays here at the moment so a lot of people are at the beach. There's a music festival where I live, so the streets are blocked off and just crazy madness. It's sort of a taste of summer, I guess you could say. You can tell it's coming. Trading's going well. There were some concerns on the forum about a couple of trades that I've been holding onto, weekly chart trades I've been holding onto for more than a month, and then another weekly trade that just triggered last week. I've got three weekly trades I'm in and they're all looking pretty good.

The one that triggered last week is looking really good. One of the other two that I've been holding onto is looking pretty darn good as well. The other one's kind of who knows, we'll see what happens on the Euro. Yeah, I'm feeling pretty good about those and I'm actually pretty keen to take a look at some of the daily chart trades this week. I have a good feeling about this week. I think that there are going to be some support resistance areas that are going to fail which gets me excited. I think that we're kind of at that point now in the markets where I just had a look, I was just on with some traders this morning and we had a look at some of the indices like the DAX and the FTSE and the SMP500 this morning.

There is sort of a story that's being told and I think that it's going to spill over into the currencies. I think we're going to see some pretty strong moves very soon. For me, for

my trading that's my sweet spot, when the market starts to get a little volatile that's what I like. I know some traders trade back to normalcy and when the market gets a little volatile they make their money when it gets back to normal. For me it's the wild swings and then when the market breaks out that's what I live off of, so yeah. I think we're just getting to the point where hopefully the floodgates open, so we'll see.

Darren: Do you think there's kind of a seasonality? I know we were just talking about seasons changing here. Do you think there's a seasonality in trading as well? We've come out of that summer period now and we're moving into a ... It almost feels like the markets are doing that as well. I know last week we were all trading in today and we were finding it very difficult. It was like the market had gotten to the point, this is where we decide where we go next now. Do you think that's true? I know a lot of people go deeply into the statistics of don't trade in August and things like that. I try to avoid any of that because I find in today it's not really relevant, but on your longer time frames would you say that's true?

Walter: Yeah, I think typically people say that the market's getting quiet. Typically, what you'll hear, you'll hear things like it's really exciting in January and it's really quiet in July, August when people are on holidays in the northern hemisphere. It's not the case every summer, I don't think. Every northern hemisphere summer, it's not the case. I think that probably if you were to look at, and I haven't, that more cases than not, more summers than not you will see more range-bound, more tidal ranges July and August than you would say February, January, but I don't know. I haven't looked at the data closely. To me that's saying don't turn the stove on because you might burn yourself. Well, you can still use a stove and not burn yourself.

You just have to stick to the rules which the rules are don't stick your flame in the flame, and so forth. I think people say that July and August are terrible because everyone's away from the markets and it quiets down. What that means for me is my daily charts aren't going to show any set-ups. You know what I mean? As long as I follow my rules I'm not going to take any setups in what I call traffic, when these daily candles are basically putting on top of each other and there aren't any swing points. I took some flak from some traders saying, "Hey Walter, why are you looking at things like platinum and these odd currency pairs?"

I said, "Have a look at the Pound, have a look at the Euro, and the Swissy, and you tell me where it's going, whether it's going up or if it's going down." They are not, right? If you look at those charts recently they are stuck in a bit of a range. That's why I'm not trading the Pound or the Euro. That's why I'm looking to trade things like silver and platinum because they are a little bit more volatile and they look completely different to the so-called major currency pair. I try to stick to my rules and that usually keeps me out of trouble when the market does sort of gear up. You can always drop down to the one-hour charts and trade if you must, or that sort of thing when it tightens up like that. I just prefer to manage my trades on the daily time-frame.

Darren: Yeah, traders do love that, don't they? Anything with a story attached, they buy into it without really backing it up at all. Don't trade Mondays, don't trade when there's a news announcement coming up. They kind of end up with basically the only times they are allowed to trade is limited. Often, when they back-test they are not taking note of these issues, and then when they trade live they like to add them into their strategy. I try and avoid it, really.

Walter: Yeah. I would say when you're doing your back-testing in forex tester, if you're a discretionary trader and you're not going back and taking a look at which news event came out back in February 2004 when you're taking this trade, then maybe it doesn't matter. Maybe you can go ahead and roll with it when you go live, but yeah, you're right. It's sort of like on your wedding day or whenever you want to have everything just right, I guess. Everything's just got to be... Typically what will happen is some traders will get really sloppy when they're back-testing and they will be back-testing for three hours in front of the computer, and they start growing a beard and they start getting really kind of, they're not as vigilant as they were in the beginning and so they take any old trade. When they go live it's a completely different thing like, "Everything has got to be right, oh no, there's an interest rate announcement three days from now," whatever. Like you said, they sort of change their approach.

I understand why people do that, but I don't think it's conducive to duplicating your results in forex tester when you go live. I think you should probably try your very best to be as vigilant as possible in your testing and make sure that you have a list of rules that you're going to use when you go live and use those same rules when you're back-testing. I understand why people get off center, that makes sense why you would do that, especially if you're taking too much risk. That's the big one. You know what I wanted to talk about today, speaking of risk, is I think I mentioned it the other day, this idea of fear, the motivation of fear. Let me ask you Darren. If I were to ask you, just to put on your psychology hat, and what would be the number one fear that people have? What would be the fear that you think, if you had to choose one as a motivator, what would that fear be?

Darren: Do you want me to give you my honest answer or my learned answer?

Walter: Well, I'd be interested in both. What's your gut? What is the number one fear?

Darren: My gut, based on experience, is fear of losing is the biggest fear. That loss doesn't necessarily mean over a period of time. It's the actual loss itself. The individual loss is the fear. From what I've read from people who know more about this than me, it's fear of missing out and fear of future regret. For me personally it's fear of losing.

Walter: I think you're on to something. I think what you're saying kind of fits in with where I was hoping to take today's session which is about this theory. As you know I've spent

a lot of time at university and stuff like that and ended up going and getting a PhD in psychology. I have this friend, he's a really interesting guy. To give you an idea of what he's like, he actually was very anti-smoking. He said to all of his friends, "You're ridiculous if you smoke. You're so stupid. Why don't you just quit?" They said, "It's just not at easy. You can't just quit, it's a really difficult thing to do."

What he decided to do was he would start smoking so that he could quit and to show them that it's not that hard to quit. When he did it, when he started smoking, he smoked for a couple of months and then he quit and said, "See, that's really easy," and they said, "No, no, no. You haven't really been a smoker. You need to smoke for longer than 60 days to really get it." He did and then he moved to Japan, and because cigarettes were so cheap over there, on principle he just kept smoking. When he finally decided it was time to quit he understood exactly what his friends were talking about back home in Canada. They said it's like losing a friend, and that's exactly what it felt to him. It felt like he had lost his friend. It wasn't only the physiological aspect of it. It was like that time that you had smoking on your own was gone. He said to them, "Okay, now I get what you're talking about."

The reason why I bring him up is because he asked me a very interesting question. We used to have these talks out surfing or whatever, hanging out at the pub. He didn't go to university, he went straight into the working world right after high school. He said, "What was the coolest thing that you learned when you did your PhD in psychology?" I thought it was a really interesting question because no one had asked me that before, and of course it would come from him. It's one of the reasons why I like these talks with you Darren, because you're a bit like him. I'm attracted and I like to spend time with people who have a different point of view. This sort of thing where you just don't spout off what you've been told, but you actually think for yourself. That's one of the things I like about this podcast.

He said, "What was the most interesting thing you learned?" I had to think about it and I said, "The most interesting thing I learned was this theory that I learned towards the end of my psychology studies. It's called Terror Management Theory." Anyone who is interested of this idea should definitely Google it and definitely have a look. The theory goes like this, the biggest concern for people is the idea that you are going to die and whether or not you are going to exist after you die, whether or not that's it, kaput, you don't exist anymore, you cease to exist. The biggest fear according to Terror Management Theory is the fear of death. What Terror Management predicts is a series of very interesting and counter-intuitive predictions based on whether or not someone has considered the fact that you're going to die.

They use this thing called Mortality Salience. It essentially reminds you of the fact that you're going to die, they might have you, in these experiments, write down your own obituary, or write down your thoughts about death, or they might even just ask you a few questions next to a cemetery. It's almost not quite sub-conscious but it's just a

subtle reminder. They might ask one group next to a cemetery and another group next to a park, or something like that. This idea of Terror Management is that because it's such an incredibly daunting and really unsettling thing to consider your own demise, that we come up these basically two umbrella strategies to cope with this. The first is that we align ourselves with our world view, which is in essence our culture. The second is that we try and pump ourselves up. In other words, we try and increase the importance that we give to ourselves. In other words, we try and increase our self-esteem.

By managing our allegiance to our culture or our world view, or by essentially popping ourselves up and making us feel better, we are able to better block out this idea that we are going to die. It's sort of like a way of saying we are going to keep existing even after we die because we're part of this great country, or we're part of this great sub-culture. Maybe you are a professor of physics, so even though you're going to die one day, there are other professors of physics, and perhaps your students, they will live on and continue on your research, or that sort of thing. Does this make any sense at all, Darren?

Darren: Possibly. You're saying basically we've all got this fear of... our mortality is a big thing for all of us. It might not necessarily be obvious to us and that will affect how we act in certain situations?

Walter: Yeah. I can give you tons of examples. As it turns out, in psychology, typically what happens is people will hone in on a very almost like a micro-aspect of our lives. For example, there might be a theory about how people interact with their friends. Some psychologists will look at social relationships in the friend domain and how you relate to people that are your peers. There'll be a whole other group of people, they will look at how people interact in the family unit. Those will have separate theories. Psychology has, because it's such a new science and it's difficult to study people. It's run into a lot of critics who say, "Well, there really aren't any theories of anything, and even the best theories of behavior like the over-arching ones like Freud's have their own problems." Essentially Freud's theory can't be tested, it's an untestable theory. The interesting thing about this theory is that it can be tested and it is sort of an over-arching theory, so there are some predictions that it makes.

I can give you a few examples here, some of these are really funny. In this study, basically they had some people that were to act as judges, like in a legal case. One group of judges was given subtle reminders of their death. They were given a questionnaire. They were both give a questionnaire, but in one group there were subtle reminders of their death in the questions. They were asked to review a case about a prostitute. They said, "Now you suggest a bail amount for this prostitute." The group who had received the subtle reminder of their death in their questionnaire came down more harshly and said that the bond should be \$455 on average, whereas

the control group who had the same questionnaire but removed the death reminders in the questionnaire, this is very subtle, they only thought she should pay \$50 bail.

The idea here is that when you're reminded of your death, when you have that mortality salience, when that switch is turned on you align yourself to your world view. The judges in this case believed that prostitution is wrong in this culture and so therefore they came down more harshly on someone who violated the cultural norm which is you shouldn't be selling sex. That's one example of how just by being suggested that you're going to die, you actually do something different than you probably would have otherwise. That's what the control group showed. As traders it's a little bit tricky because they've actually looked at Terror Management Theory in terms of risk-taking behavior. Here is where it gets interesting. Remember we said there is two things that reminding yourself of death will do. One is you kind of want to grab onto your beliefs about your culture. For me I remember when I was getting to the point where I was going to defend my dissertation in psychology I started getting these panic attacks.

The first one I had, I remember it was the summer Olympics. I woke up in a cold sweat. I must have watched the gymnastics Olympics that evening, I think. That night I woke up and all I kept thinking was, as my heart's beating, it's going really fast, I think I'm going to have a heart attack and die I kept thinking of "We won gold, we won gold in the women's Olympics." That was so important to me. I kept thinking, I was overjoyed that we won gold even though I was clearly going to die this night. I think of that when I think of Terror Management, how silly that I was thinking about this 16-year-old girl that sealed the gold for the US gymnastics team when I was about to die of a heart attack. This is the sort of thing that we see. They've done tests with people who are making risky decisions like divers, they've done divers. They say we want to see if these scuba divers are going to make risky decisions based on whether they've had this reminder of the fact that they were going to die.

What they found was if you had high self-esteem, if you felt really good about yourself, if you are reminded of the fact that you were going to die, when you went out scuba diving you wouldn't make risky choices. Those with the lower self-esteem actually did make more risky choices when they were reminded of the fact that they were going to die. If they weren't reminded of the fact that they were going to die, I didn't matter. It didn't matter whether they had low or high self-esteem. They would have the same number of risky decisions and take risks. Remember we talked about this. There's two things that you hold onto. One is your culture and the other is you try and pump yourself up. It turns out that it seems as though people with lower self-esteem are more prone to risky decision-making if they're reminded of their death.

They've looked at another thing which is post 9/11 in New York. After the World Trade Centers went down in New York, they examined people from different socio-economic

backgrounds. What they found was people who came from poorer backgrounds were actually more likely to do things like buy a whole bunch of lottery tickets after the World Trade Centers went down, and people who had come from a higher SES background and had more money actually became more risk-averse. The idea here is that the people who had essentially low money self-esteem going into this reminder that they are going to die started getting more risky. The other people that essentially had basically for lack of a better term, they had higher self-esteem about their money and their self-worth in terms of dollars, they would take less risks.

Again it kinds of fits into the big picture here of Terror Management. I just wanted to throw it out there because I felt that some people might be interested in this, and thinking in terms of how can you set yourself up as a trader so that you are aware of the fact that you, let's say that you are, maybe you're from a poor background and you see trading as your way out of that, that's your ticket out of this. Is there something that you might be able to do to set yourself up so that you aren't breaking your trading rules, that you aren't being too risky with your systems and your decisions?

Darren: Did they test the same idea with other fears or just the fear of death?

Walter: Yeah, the idea is basically based on, I think it was an anthropologist's book. I think it was Becker. He basically pauses this idea that most of what motivates us is the fact that we are aware subconsciously that we're going to die. The psychologists took it and for the last 30 years they have been testing this thing and they have essentially said, "We've come up with all these situations where you would normally predict one thing to happen but something else happens if you use the magic bullet which is subtly reminding someone of the fact that they are going to die one day. It really is the death salience that changes the behavior here. It's sort of the magic bullet, as it were.

They've done things where not only, they couldn't figure out New York why so many people were buying lottery tickets after 9/11, and when they looked into it they saw it was the poorer people that were just going hog wild and buying a lot of lottery tickets. They did studies too, the classic economic study where they say would you take a sure \$10 or a 50-50 flip of the coin and you either get nothing or you get \$20. You do those sorts of things. They've done it in many different ways and they found that if you've got low self-esteem or if you've got basically little money, I call it money self-esteem, economic self-esteem.

Whatever you want to call it, your background, if you're coming from a poor background and you're reminded of your death, you're going to be more risky. All things being equal, you're more likely to take risks. If you're from a more wealthier background and you're reminded of your death you're actually going to get more conservative than you would normally be. It's just a way of seeing your motivations in

a different light. I know a lot of people probably don't even want to think about this, which is sort of the point.

Darren: Add me to the list. First time you think well you're not often being reminded of that anyway, but actually we are. If you've got the TV on and you're reading the papers and you're listening to the news, we're kind of constantly being reminded of that. There's constantly wars. It tends to be bad news, doesn't it? They don't report the crash where everyone was all right. They report the horrific one where everyone died just going to work, or whatever. We are always being reminded of that.

Walter: Absolutely. The other day there was a shooting in the US and everyone of course comes to me because I'm the token US guy over here in Australia. They are like, "Oh I can't believe it, another shooting in the US." You're right, those are the headlines that sell. They don't talk about the family that's taken in 12 orphans and they're just struggling to get by and they are the saints of the neighborhood. They're talking about the guy that walks in and shoots a bunch of people on campus, so you're absolutely right. They talk about famous so-and-so, who's famous has got cancer now, or so-and-so has died. A lot of that's going on in terms of what we're getting bombarded with if you're looking at the mass media.

They're just telling us that there is this motivation here that's inside us and you should be aware of it. If you're a person who is interested in your own psychology and even more so interested in this idea of death and considering your death, it could be something to get into. I just wanted to highlight it because I thought it was fascinating. They have all kinds of stories. You can find them on the internet. There's a study where they use hot sauce and they see how much hot sauce people pour into someone's meal knowing that the person doesn't like hot sauce when the person's not looking. It's related to the fact of whether or not they've been reminded of their own death and how that fits in with their stereotype of this other person. It's a broad range of studies, hundreds and hundreds of studies that have basically come up with very creative ways of confirming this idea that once we start thinking of the fact that we're going to die it really does change the way we behave and we might not even be aware of it.

We could probably talk about this some other time, but what's interesting from a neurological point of view is they can put an MRI on your head and they can tell you six seconds before you make a decision, the guy watching your brain scan can tell you, he knows six seconds before you say what your decision is, he knows what you're going to do. That's because he can see that in your head and we come up with reasons why. This all gets into priming and I think we've touched on it, but we can come up with reasons why we're doing something that actually have nothing to do with the actual reason why we're doing it. It's just a justification post talk.

I know this is kind of one of your big themes especially when it comes to trading. We can come up with all these reasons why this part on the chart was the perfect spot for the reversal especially when that reversal happened three months ago, that sort of thing. The indicator is turning yellow or whatever that sort of thing. Interesting thing to look at. I know for a lot of us the gut is all well I don't have to worry about this because I have a high self-esteem or death doesn't worry me or whatever or things like that. The theorists are basically saying that a lot of what we do in everyday life is a way of hanging on to immortality by proxy.

Essentially, by associating with what we view to be important, our world view our culture. They would argue that culture itself is just a way for us to maintain our immortality by identifying with a group, a sub-group, a country. It doesn't necessarily have to be your country, it could be your sub-group. Maybe you are a scientist, or maybe you are a pilot, or maybe you are a marine or whatever. These are the sorts of things that maybe you grew up in a commune. So you believe that that's something that's very important. I know a guy who grew up in a commune and he talks about how that was actually the normal way to grow up years ago. It's only recently that we've in the western world sort of come up with these little family units. Before everyone grew up in a commune.

Darren: That's pretty mind blowing stuff there. It's along the lines of the prime and I just kind of touched on the other week and I had only seen a short example video about it. I know I've got issues with money and I never knew that before. Trading has taught me that about myself. I didn't come from a wealthy background and when I sort of look back on how I deal with money, definitely got issues with money. If I talk about my mortality, it's not something that instantly worries me or I'm concerned about so it's just kind of making me think really now. I'm quite risky.

Walter: What's going on?

Darren: I'm not particularly risk-averse. I'm changing on that as well. I'll do certain things now that before I was a trader I would have just done without considering it but now I do sort of consider the risk involved like bungee jumping et cetera.

Walter: For a lot of people being a parent will do that to. Maybe I shouldn't bungee jump, or maybe I shouldn't jump out of that, go sky diving or wear my squirrel suit to the Grand Canyon or whatever. Whatever people do. A lot of people say like I've ...

Darren: Sorry, I was going to say I'm definitely going to look more into it.

Walter: It would be interesting. I want to get back into priming. I think I've been reading up on some of the psychology and the experiments in priming and I find it fascinating. I think

we should definitely do an episode on priming where we look at that. I think that's a very fruitful area.

Darren: Yeah, cool.

Walter: If you're interested in this sort of thing. The seed for the Terror Management Theory came from Ernest Becker's 1973, Pulitzer Prize winning book, non-fiction book called the Denial Of Death. Becker argues that all human action is taken to ignore or avoid the anxiety generated by the inevitability of death. All human action is taken to ignore or avoid the anxiety generated by the inevitability of death. That's the basic idea. Certainly have a look at either Ernest Becker's book Denial of Death or you can just Google Terror Management Theory and you'll see some of the interesting experiments that have come up. I like the hot sauce one myself, but it's something to think about, guys.

You can probably use this if you are aware of, if you can see this in yourself you can use it as a tool just as you can use priming as a tool to help your training. I think we should probably talk about that in another episode Darren. We need to get deep into priming and what this means for us as traders and how priming can be used as a tool as a risk management tool, if you know how to do it. I think that would be another good episode that we could jump into because I know that's a big one for you as well, the idea of priming.

Darren: Yeah, I'd like to do more on the priming, doing it specifically, and how we can kind of set ourselves up for trading and use it for our sort of trading retail.

Walter: Brilliant let's do it. Have a good day Darren, we'll talk to you in the next episode and thanks a lot for your time.

Darren: Cheers, Walter.