

Want to be a more effective trader? Get in touch with your emotions

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If I were asked to list the major intellectual breakthroughs of the past half-century, I would certainly include the revolution in our understanding of emotion.

For thousands of years, it was common in Western thought to imagine that there was an eternal war between reason and our emotions. In this way of thinking, reason is cool, rational and sophisticated. Emotions are primitive, impulsive and likely to lead you astray. A wise person uses reason to override and control their primitive passions.

A scientist, business executive or any good thinker should try to be objective and emotionally detached, kind of like a walking computer that cautiously weighs evidence and calculates the smartest way forward.

Modern neuroscience has delivered a body blow to this way of thinking. If people thought before that passions were primitive and destructive, now we understand that they are often wise. Most of the time emotions guide reason and make us more rational. It's an exaggeration, but maybe a forgivable one, to say that this is a turnabout to rival the Copernican Revolution in astronomy.

The problem is that our culture and our institutions haven't caught up with our knowledge. Today we still live in a society besotted with raw brainpower. Our schools sort children according to their ability to do well on standardised tests, slighting the kind of wisdom held in the body that is just as important for navigating life.

Our economic models are based on the idea that humans are rational creatures coolly calculating their self-interest, and then we are surprised when investors whip themselves into the frenzy of a sharemarket bubble.

A lot of people are estranged from their own inner lives because they don't know how their emotions function. I look at all the sadness and meanness in the world and conclude that we're just not good at building healthy emotional connections.

So what are some of the things modern neuroscience has taught us? Well, things really got rolling in 1994 when Antonio Damasio published his classic book *Descartes' Error*. Damasio had studied patients who had trouble processing emotions. They weren't super-smart Mr Spocks. They were unable to make decisions and their lives spiralled. He demonstrated that emotions deftly assign value to things, and without knowing what's important, or what's good or bad, the brain just spins its wheels. Emotions and reason are one system integral to good decision-making.

Since then, neuroscientists have jumped into the study of emotions with both feet. We have a better understanding of how emotions form and what they do for us. To oversimplify a bit, below conscious awareness, your body is constantly reacting to the events around you: heart speeding or slowing, breaths getting shorter or longer, your metabolism purring or groaning. Many of these reactions happen in the enteric nervous system in the gastrointestinal tract, which is sometimes called "the second brain". There are upward of several hundred million neurons in that system; 95 per cent of the neurotransmitter serotonin is there.

Every second of every day, your brain is monitoring the signals sent up from your body and rushing to assign meaning to them. Is this set of bodily responses nervousness? Anxiety? No! This is terror!

The body kicks into gear and then the mind constructs an emotional experience. It feels like we get scared and start running from the bear. But as psychologist William James brilliantly intuited more than a century ago, it's more accurate to say we start running from the bear and then we get scared.

Emotions put us in the right mind-state so that we can effectively think about the situation we're in the middle of. As neuroscientist Ralph Adolphs told Leonard Mlodinow for his book *Emotional*, "An emotion is a functional state of the mind that puts your brain in a particular mode of operation that adjusts your goals, directs your attention, and modifies the weights you assign to various factors as you do mental calculations."

In other words, emotions slant the mind in one direction or another depending on circumstances.

Indignation helps us focus on injustice. Awe motivates us to feel small in the presence of grandeur and to be good to others. Euphoria puts us in a risk-taking frame of mind. Happiness makes people more creative and more flexible in their thinking. Disgust primes us to reject immoral behaviour. Fear helps amplify our senses and focus attention. Anxiety puts us in a pessimistic state of mind, less likely to take chances. Sadness improves memory, helps us make more accurate judgments, makes us clearer communicators and more attentive to fairness.

As Lisa Feldman Barrett writes in her book *How Emotions Are Made*, “You might think that in everyday life, the things you see and hear influence what you feel, but it’s mostly the other way around: that what you feel alters your sight and hearing.”

Neuroscientist John Coates has observed that the body is “an *eminence grise*, standing behind the brain, effectively applying pressure at just the right point, at just the right time, to help us prepare for movement.”

But Coates also knows that sometimes our emotions get things wrong and put us in a self-destructive state of mind. Before he was a neuroscientist, he was a Wall Street trader at Goldman Sachs, Merrill Lynch and Deutsche Bank.

In his brilliant 2012 book, *The Hour Between Dog and Wolf*, he describes how bull markets could change traders’ emotional mindsets:

“As a bull market starts to validate investors’ beliefs, the profits they make translate into a lot more than mere greed: they bring on powerful feelings of euphoria and omnipotence. It is at this point that traders and investors feel the bonds of terrestrial life slip from their shoulders and they begin to flex their muscles like a newborn superhero.

“Assessment of risk is replaced by judgments of certainty – they just know what is going to happen: extreme sports seem like child’s play, sex becomes a competitive activity. They even walk differently: more erect, more purposeful, their very bearing carrying a hint of danger: ‘Don’t mess with me,’ their bodies seem to say.

“Testosterone was flowing. Dopamine came in torrents. This is the kind of mindset that produces bubbles and the odd global financial crisis. Euphoria goeth before the fall.”

How can traders do their jobs without making the global financial system go kablooeey? The answer isn’t to repress emotions. Decision-makers need emotions to take risks and venture forth. Traders need to feel the market in their bodies and use their emotions to intuit which signals on their computer screens can be safely ignored and which are serious warnings that demand attention.

What they need is emotional self-awareness. Research by Coates and others shows that effective traders are hypersensitive to physical changes – to, say, variations in their heartbeats. In other words, they are exceptionally good at emotional appraisal: What is my body telling me and is it helpful or overwrought?

They’re not so much repressing or taming their emotions as having a conversation with them. The act of verbalising an emotion is a great way to put it in perspective, as William Shakespeare understood when writing *Macbeth*: “Give sorrow words. The grief that does not speak whispers the o’erfraught heart and bids it break.”

One of my favourite methods for emotional management comes from Yale University emotions scholar Marc Brackett, called the RULER method. He teaches people to recognise, understand, label, express and regulate their emotions. (His 2019 book *Permission to Feel* is a guide through the process.)

My core point here is that you need to be a great emotional athlete in order to make the great decisions in life. You need to be ardent enough to feel and astute enough to understand your feelings. Life is not a series of calculus problems. Life is about movement – moving through different terrains and circumstances. Emotions guide the navigation system. As Mlodinow writes in *Emotional*, “While IQ scores may correlate to cognitive abilities, control over and knowledge of one’s emotional state is what is most important for professional and personal success.”

We’ve always known that emotion is central to the art of human connection (which is not to say that we’re always good at it). Now we understand that emotion is central to being an effective rational person in the world.

And yet most of us are emotionally inarticulate. If you are going to hire, marry, befriend, manage or coach people, shouldn’t you know their core affect, the emotional baseline they carry through life? Shouldn’t you know their emotional profile, the distinctive way they construct emotions in diverse circumstances? Shouldn’t you know how good they are at discerning, labelling and expressing their emotions? When people get fired, it’s rarely because they lack technical abilities; it’s almost always because they’re

uncoachable, they have anger issues or they're bad teammates. In other words, they lack emotional skills, a fact often undetected in the hiring process.

Some people are just better emotional athletes than others, yet I'm not sure we know how to evaluate these skills or that we're good at teaching them.

This week, I watched two presidential campaign rallies on YouTube, Kamala Harris in Nevada and Donald Trump in Montana. The difference between the two candidates' emotional profiles could not have been starker. Harris was exuberant, joyful, a volcano of positive emotions – even when she was talking about being a prosecutor. Trump was combative, embattled, indignant, a volcano of negative emotions – even when talking about how much his crowds love him.

Being president is all about making decisions. I'd love to know how the candidates' contrasting emotional styles are likely to shape their decision-making. I'd love for us to think more carefully about which emotional style is better suited to our national circumstances. I'd love to live in a culture that could talk about emotions with the appreciation, sophistication and granularity that they deserve.

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