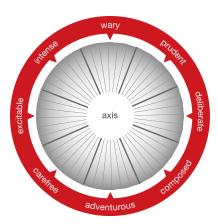




How Understanding Risk Type Can Impact Trader Performance

Geoff Trickey, MD, Psychological Consultancy Ltd (PCL)

Steven Goldstein, Trader Performance Coach and Consultant/Executive Coach, Alpha R Cubed

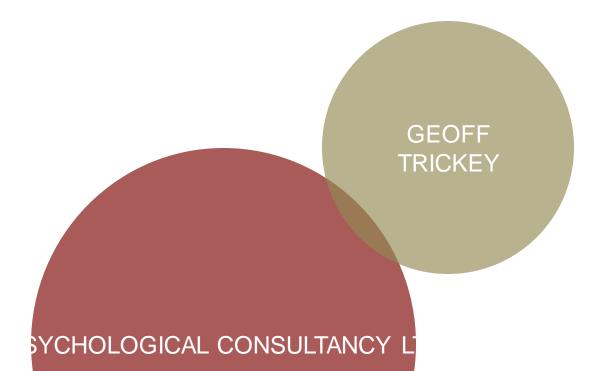








Risk Type







PCL Business Psychologists (Est. 1993)

23rd year
Innovative
Research oriented
Global influence



Risk Type Research



 Five years of research and development triggered by FSA regulatory requirements

How individuals differ in risk orientation

 Data from over 8,000 completions of the Risk Type Compass questionnaire



Opportunities and Applications



- Auditor training and accreditation
- Financial advising
- Board development
- Risk management
- Sports psychology
- Heavy industry H&S
- Trader coaching
- Risk culture change



The People Problem



Irrational decision making (Khaneman):

Behavioural economics and human irrationality

Getting to grips with behavioural bias:

The significant reliance on personal judgement at all levels has to be recognised



No Avoiding Personal Judgement



Decision-making draws on both the analytical and the emotional systems in the brain

We make decisions instinctively

"INNOVATION Managing risk, not avoiding it"

Annual Report of the Government Chief Scientific Adviser 2014.



Personality and Behaviour





Personality



Different People – Different Solution

Personality can't choreograph behaviour

 It's about dispositions that exert a persistent and pervasive influence

We each have our own behavioural bias



Critical Personality Dispositions



Emotion:

Fearful pessimists......Calm optimists

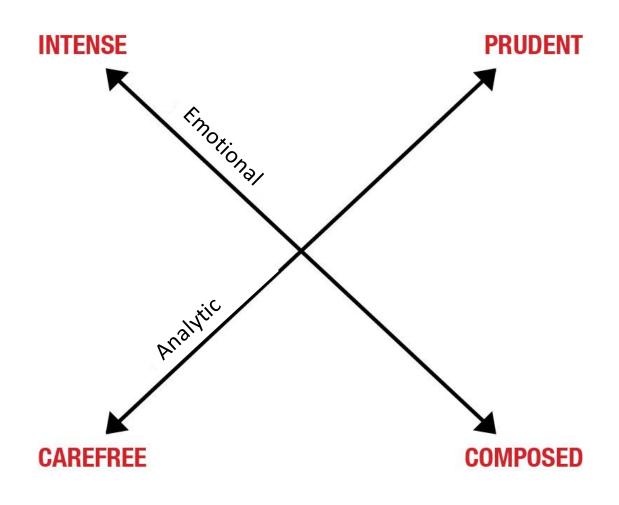
Analysis:

Excitement seekers...... Systematic planners



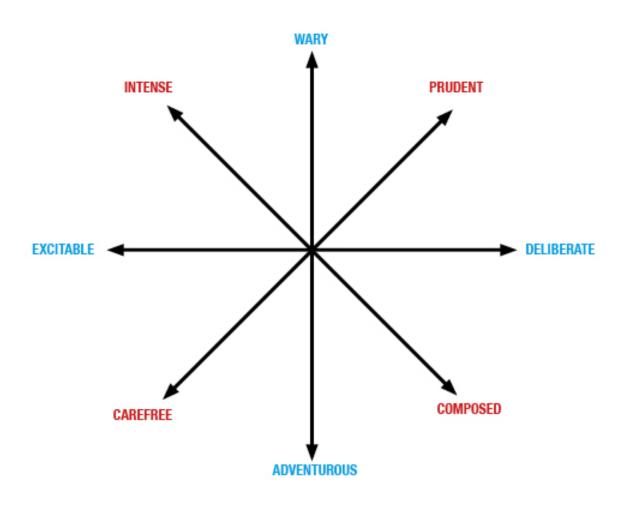
Risk Type













The Risk Type Compass



Wary

Prudent

Deliberate

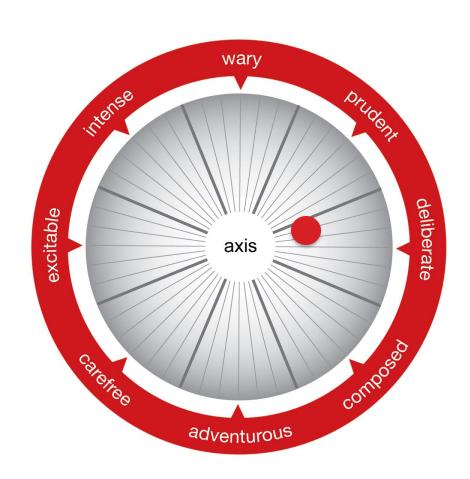
Composed

Adventurous

Carefree

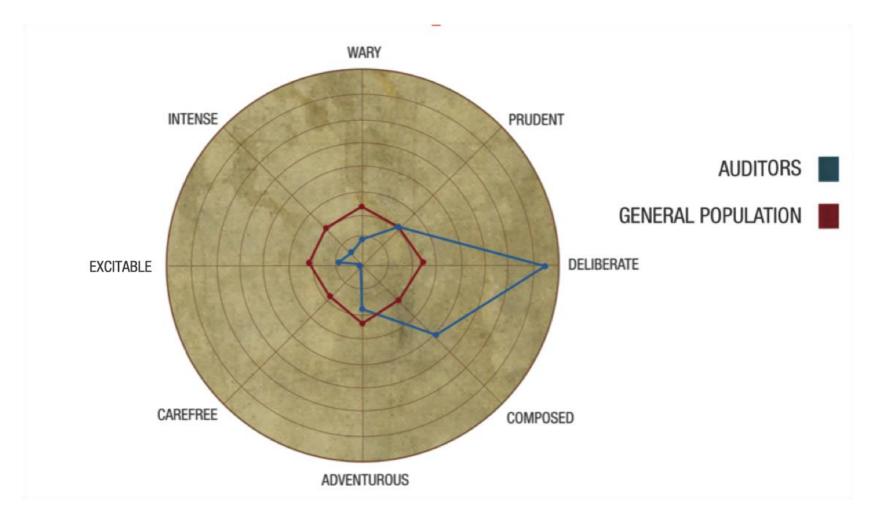
Excitable

Intense



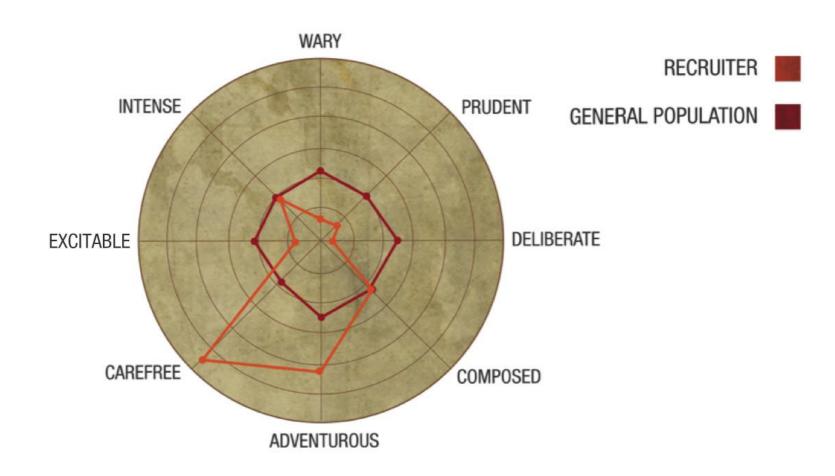








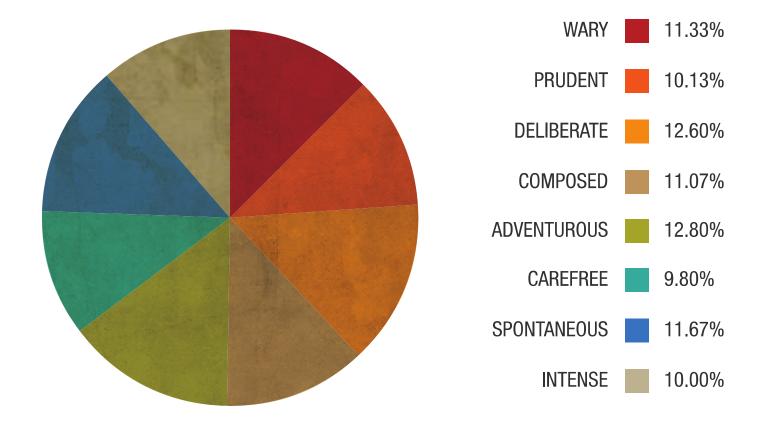






Prevalence of Risk Types





Team Homo Sapiens



Different People – Different Solution

Personality



Persistent and pervasive influence



Consistent behavioural bias



Different strategies for different traders





THANK YOU

CONTACT
01892 559540
www.psychological-consultancy.com





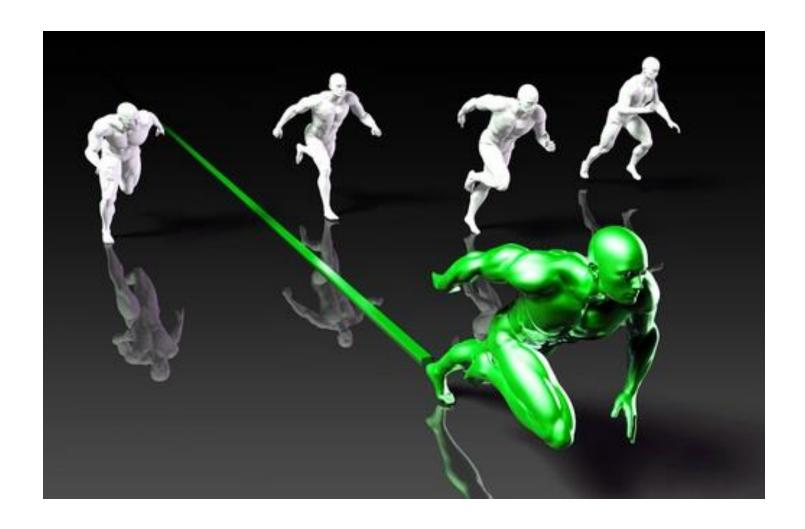


Steven Goldstein

Trader Performance Coach and Consultant/Executive Coach















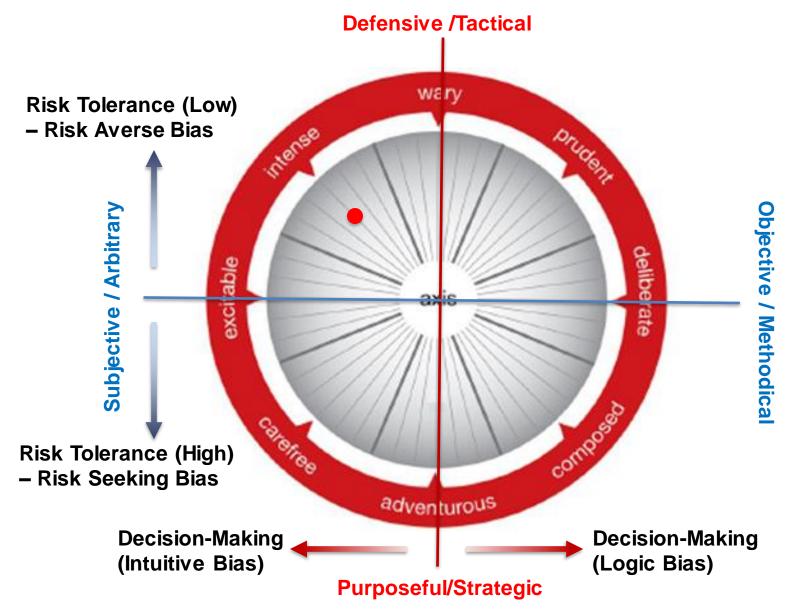






Observed Tendencies and Biases







Observed Tendencies and Biases



Observed Upside Traits

Fearful of Failure, the invest energy and prepare carefully.

Vigilant to threats, they are thorough with their market alvalysis & risk management.

Protective Posture /Tactical Their vigilance, investigative mind & detail orientation contributes to finding good riskreward opportunities.

wary

Systen conscio they l work structu met

Alert to risks & opportunities, Bring Passion to their Highly Analytical & they tend to be strong noise and flow traders. Detailed

intense

They tend to be highly in tune with markets and market movements.

Flexible and agile they react rapidly to new information, news and data.

Strong sense of intuition they are typically strong at picking up market signals & cues.

intuitive, pick up market noise

excitable

axis



Observed Tendencies and Biases



Observed Downside Traits

Protective Posture /Tactical Strong dislike of ambiguity, Fear of failure may make may cause them them hesitant to remain inside & indecisive comfort-zones.

Can lack confidence and self-belief and may lose faith in ideas and self.

Prone to elevated levels of

anxiety and nervousness.

wary

Can over complicate over analy leading t missed opportunit

May dwell on bad outcomes. impacting self-belief, May tend to be erratical. affecting ability to hold risk.

High levels of emotion could interfere with rational decision-making.

Mood swings can impact decisions and behaviours.

B

May make hasty irrational decisions. can be impulsive, unpredictable and irrational.

May annear

mpulsiveness may terfere with logic.

excitable

axis



Distribution by Asset Class



Traders A Class

FX

Rates/ income

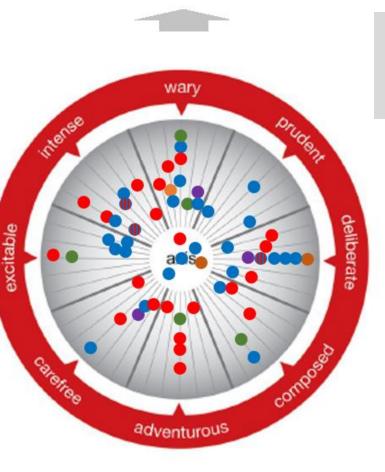
Commodity/Energy

Credit

Equity

Cross Asset

(Intuitive Subjective / Arbitrary Defensive /Tactical - Risk Averse Bias



Analysis of 60 senior traders assessed. (Traders under 5 years experience excluded).

(Logic Bias)
Objective / Methodical



Distribution by Asset Class



Traders A Class

FX

Rates/ income

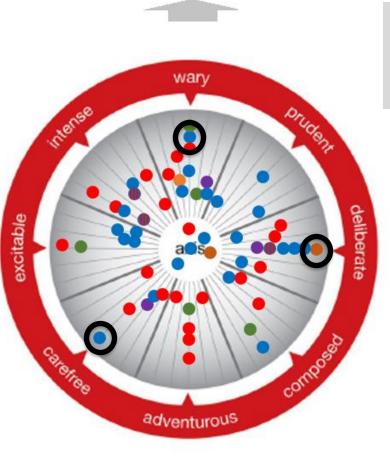
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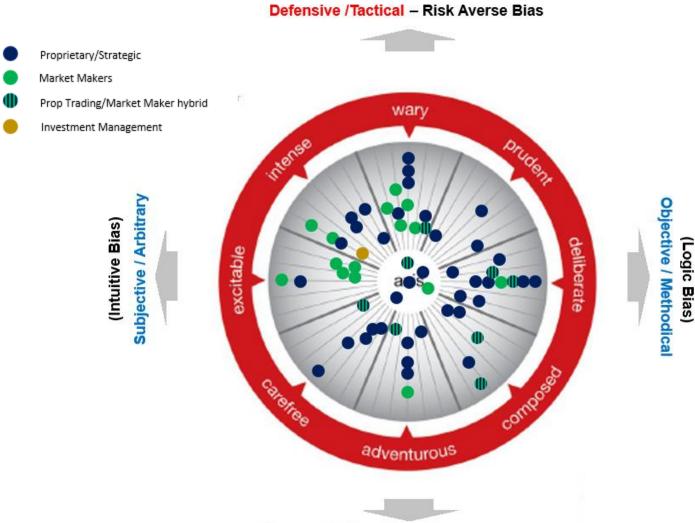
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Market-Maker(Sell Side) v Proprietary(Buy Side).

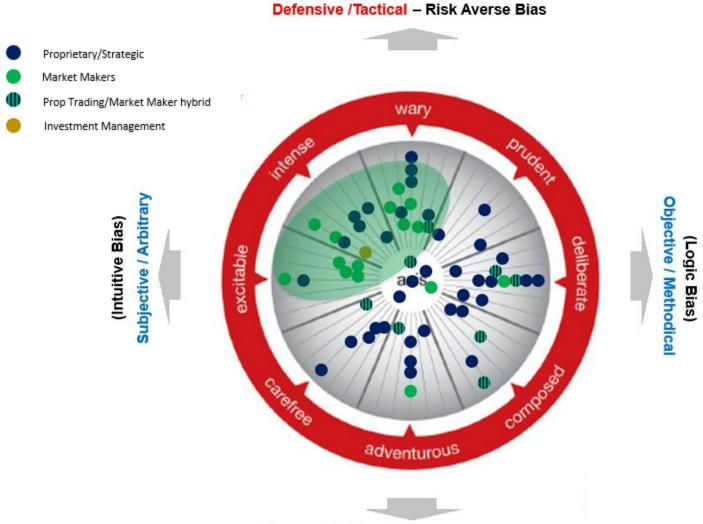






Market-Maker(Sell Side) v Proprietary(Buy Side).





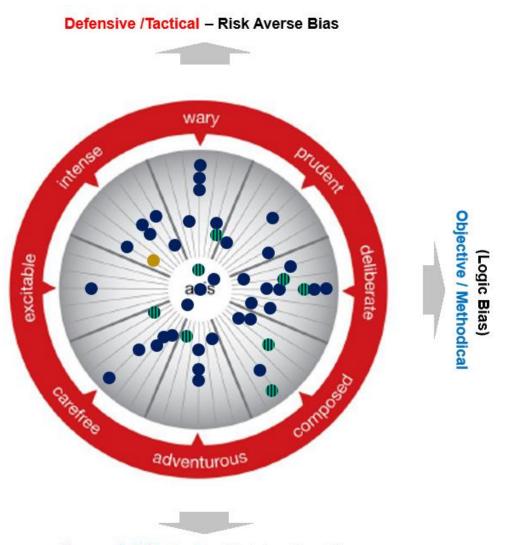


Proprietary/Strategic only



Market
Makers
removed
from
graph.

(Intuitive Bias) Subjective / Arbitrary







Objective / Methodical

(Logic Bias)

Directional Traders: Principally long or short of an asset or asset class, but not both.

Spread Traders:
 Typically Long & Short
 of assets, Relative
 Value, Portfolio
 Approach.

Volatility Traders:
 Option Trading.

(Intuitive Bias) Subjective / Arbitrary

Defensive /Tactical - Risk Averse Bias wary deliberate excitable composed Carefice adventurous

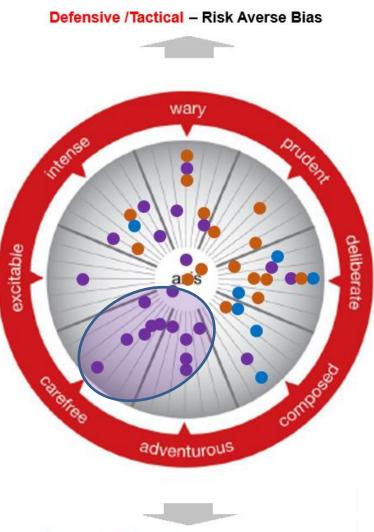




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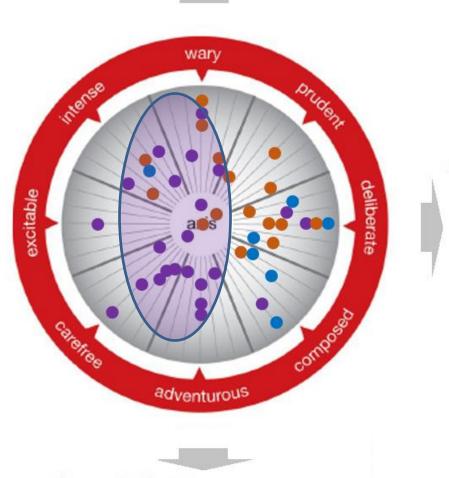
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Objective / Methodical

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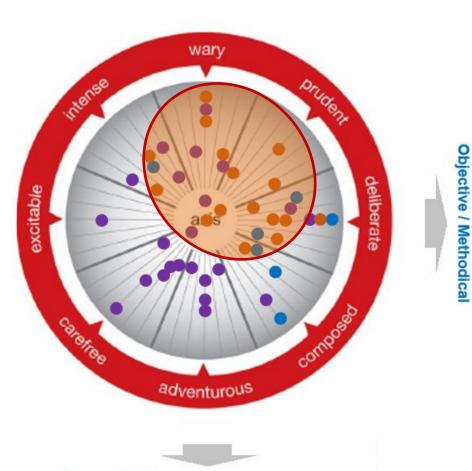
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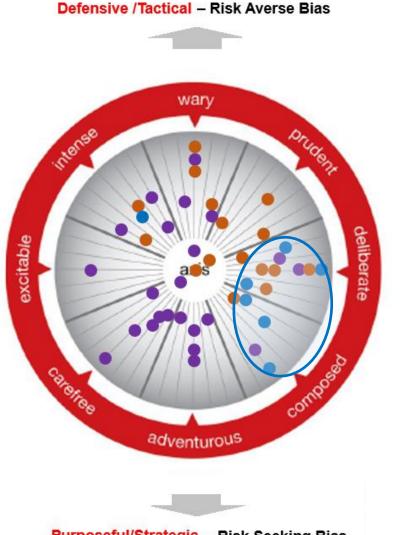
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Approach to Trading.



Objective / Methodical

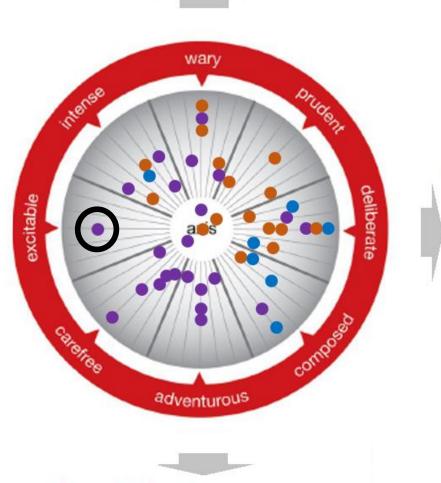
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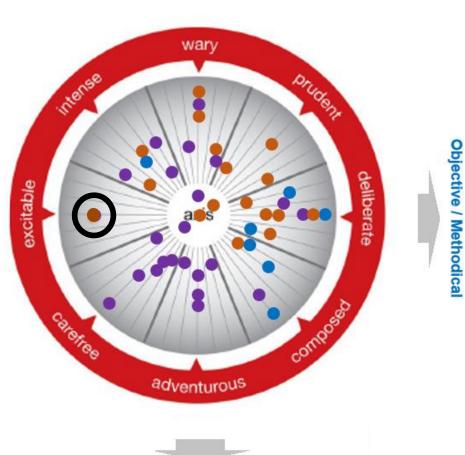
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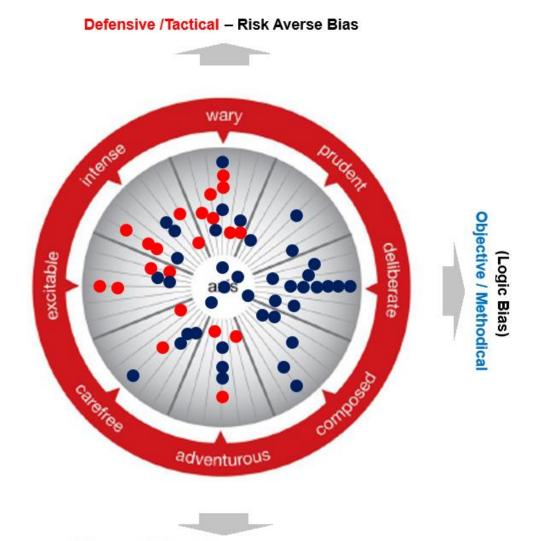


By Average Trading Holding Period



- Short-Term Traders:
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- Medium/Long-Term Traders: Typically over 2 weeks holding period.

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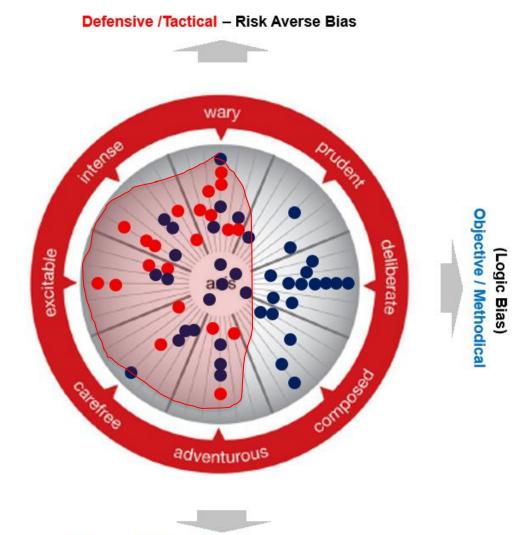


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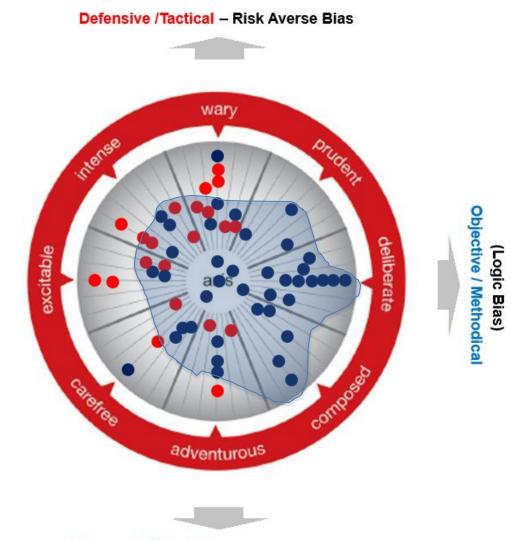


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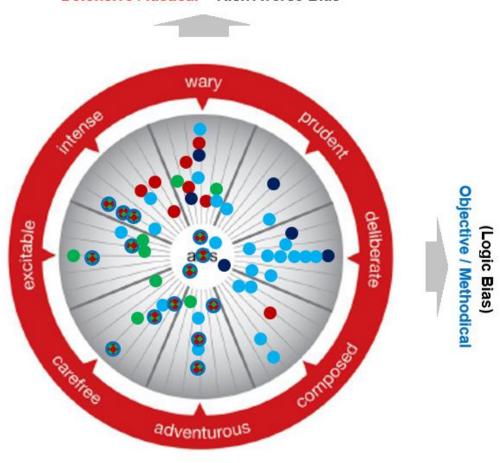




Defensive / Tactical - Risk Averse Bias

- Technical (Charts/Indicators)
- Fundamentally driven (Macro Economic)
- Quantitative/Systematic
- Instinct Driven (Intuition/Feel/Noise)
- Hybrid Approach (Various approaches No Strong Preference)

(Intuitive Bias) Subjective / Arbitrary





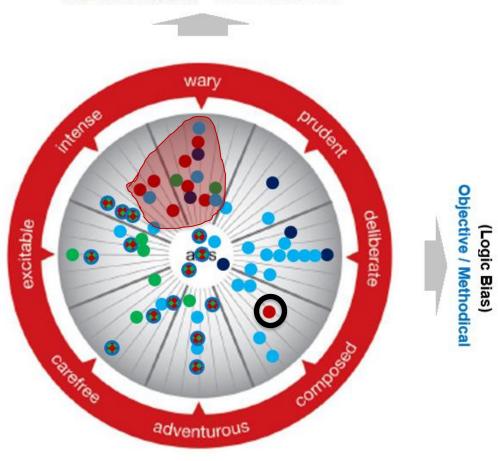






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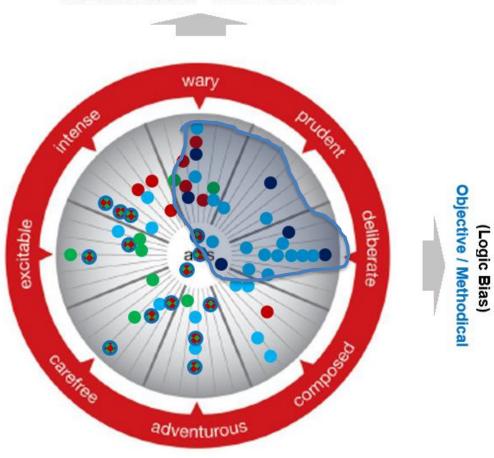






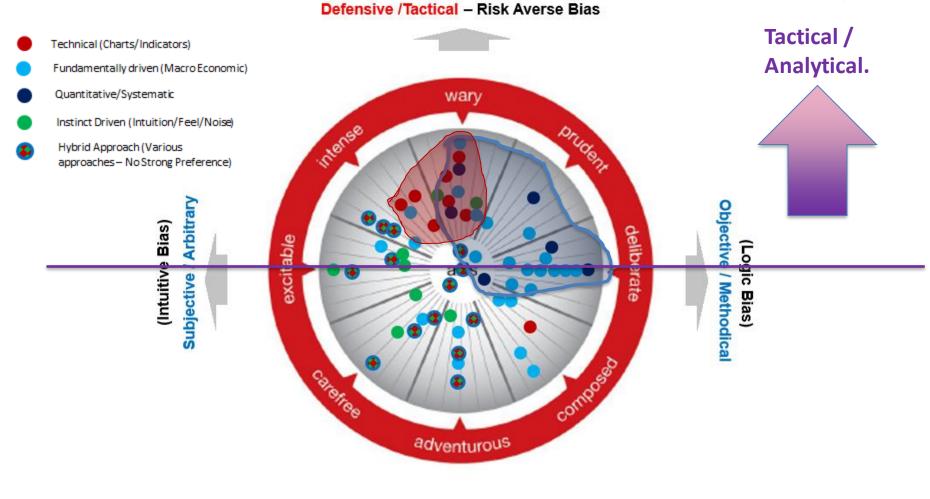
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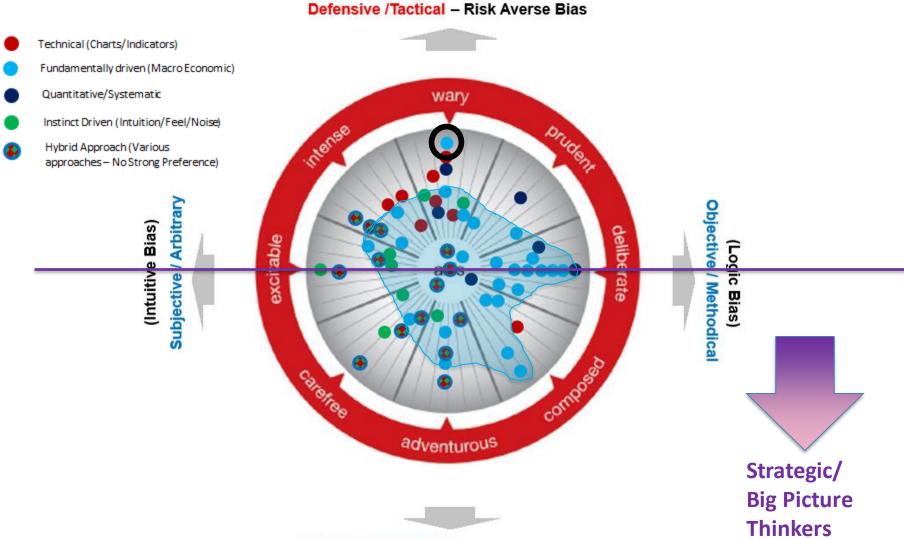






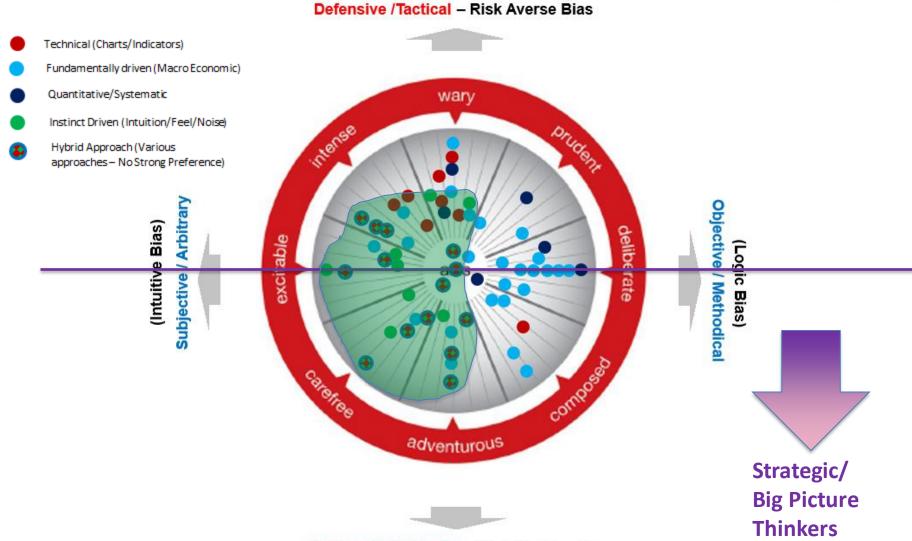














Distribution by Asset Class

Defensive /Tactical - Risk Averse Bias



Traders Ass€ **Class**

FΧ

Rates/income

Commodity/Energy

Credit

Equity

Cross Asset

Subjective / Arbitrary (Intuitive Bias)

excitable

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Compage

deliberate

Objective / Methodical (Logic Bias)

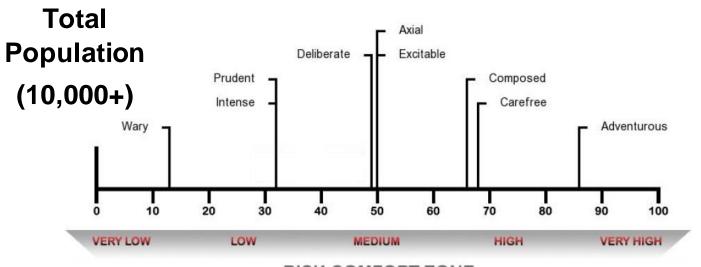


adventurous



RISK TOLERANCE INDEX



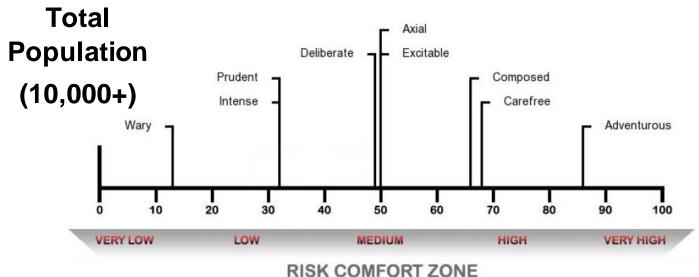


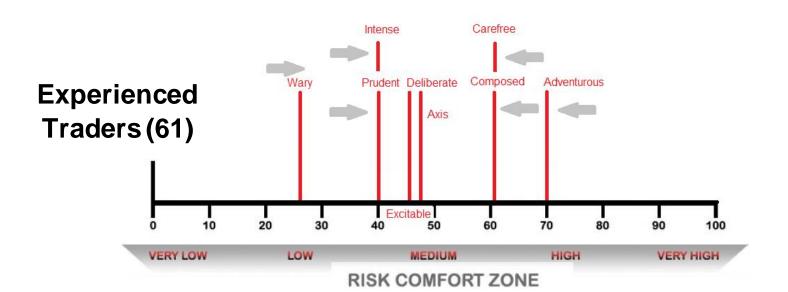
RISK COMFORT ZONE



RISK TOLERANCE INDEX



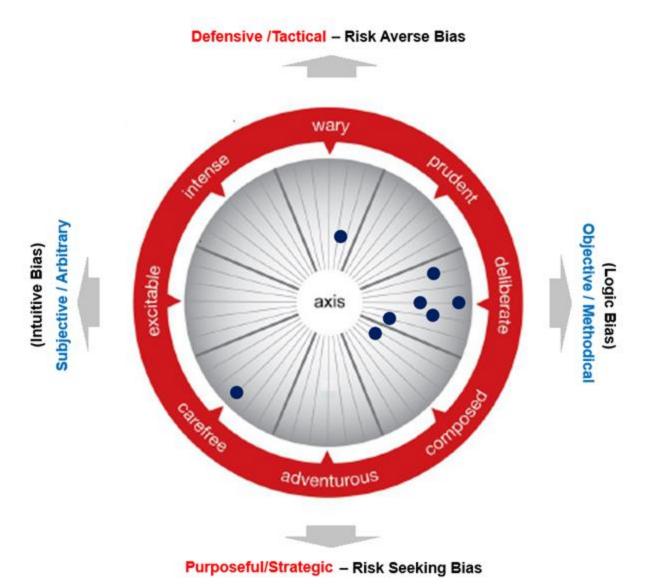








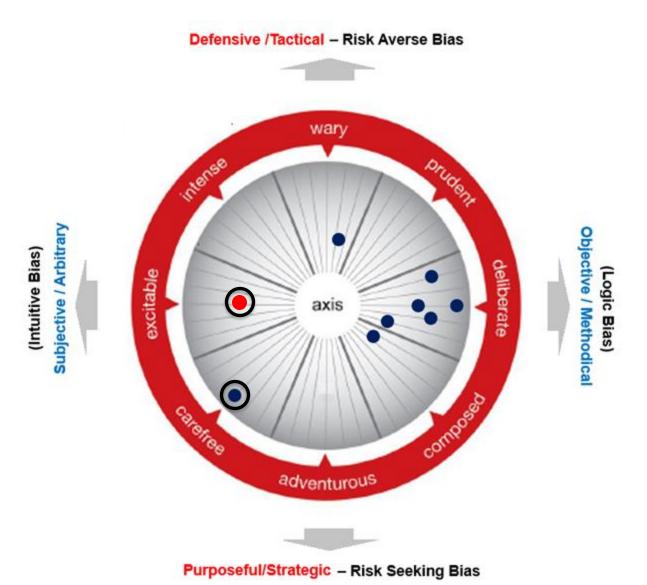
High Performing Hedge Fund Team 1:







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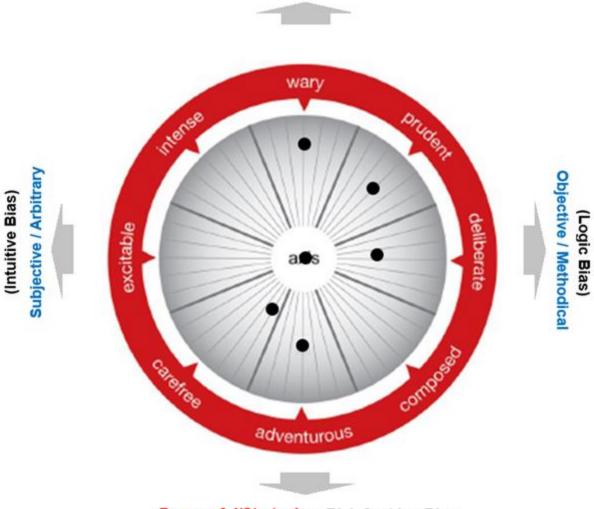






High Performing Hedge Fund Team 2:

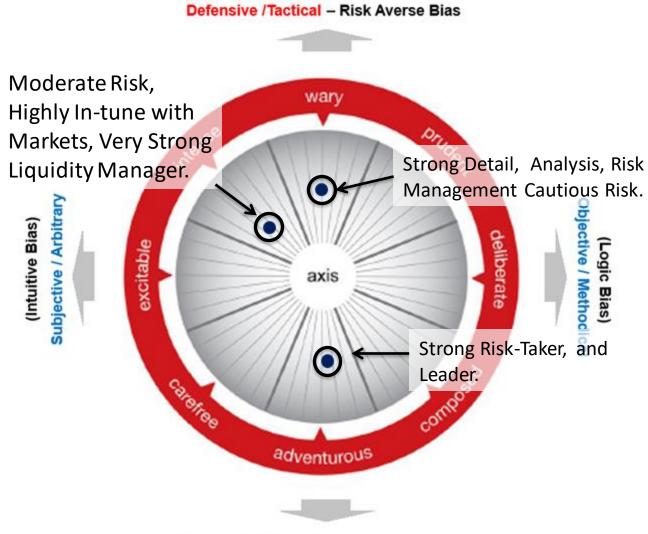
Defensive / Tactical - Risk Averse Bias







Investment Bank High Performing Team





The Many Benefits



Performance

- People's Performance as Decision-Makers and Risk-Takers.
- Improving Team, Inter-Team and Group Performance.
- Stronger P/L.

Risk

- Risk Behaviours and Risk Management on the Front Line.
- Risk Culture.
- Regulatory Efforts (Snr Mngr Regime).
- Raising Standards (Fair & Effective Markets Review (FEMR)

Human Resources

- Learning & Development.
- Organisational Culture.
- Employee Engagement.
- Improving Selection and Job-match.





Q&As

Alpha R Cubed - Steven Goldstein
Psychological Consultancy Ltd - Geoff Trickey



To Know More



Risk Type Compass

Contact - PCL 'Psychological Consultancy Ltd' www.psychological-consultancy.com

Email at info@psychological-consultancy.com Call on +44 (0)1892 559540

Performance Coaching & Consulting Alpha R Cubed Ltd

www.alpharcubed.com Email at info@alpharcubed.com Call on +44 (0)207 993 5362