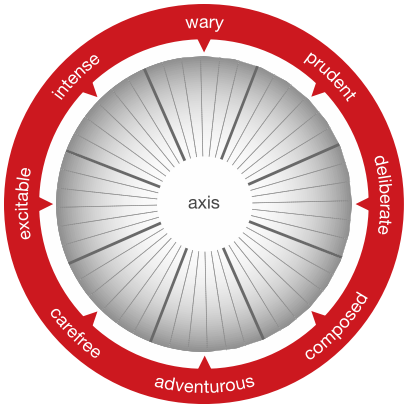
How Understanding Risk Type Can Impact Trader Performance

Geoff Trickey, MD, Psychological Consultancy Ltd (PCL)

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



pcl opening minds

Alpha R Cubed

Risk Type

GEOFF TRICKEY

SYCHOLOGICAL CONSULTANCY L

Introduction

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

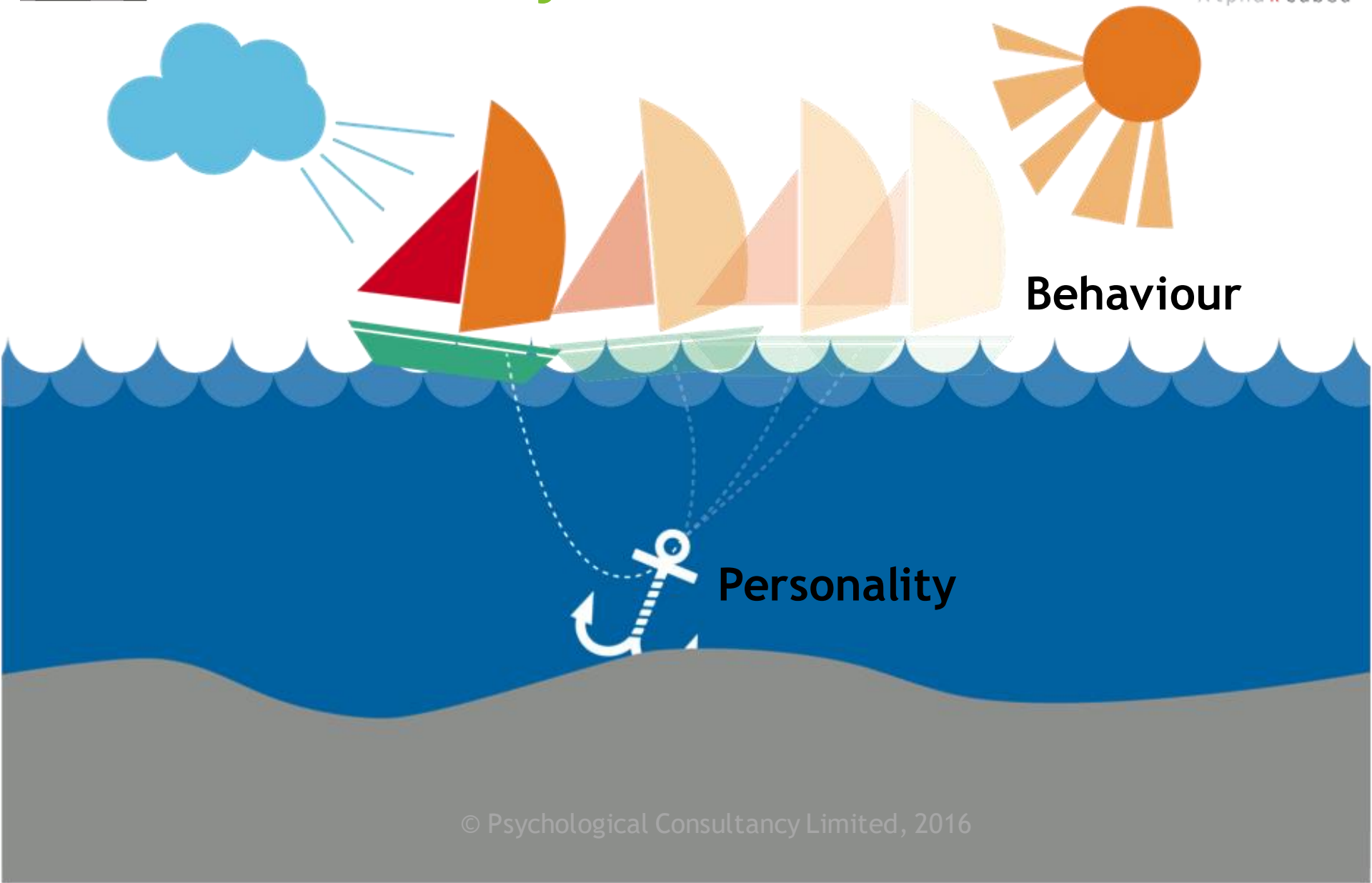
No Avoiding Personal Judgement

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



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Different People – Different Solutions

- 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

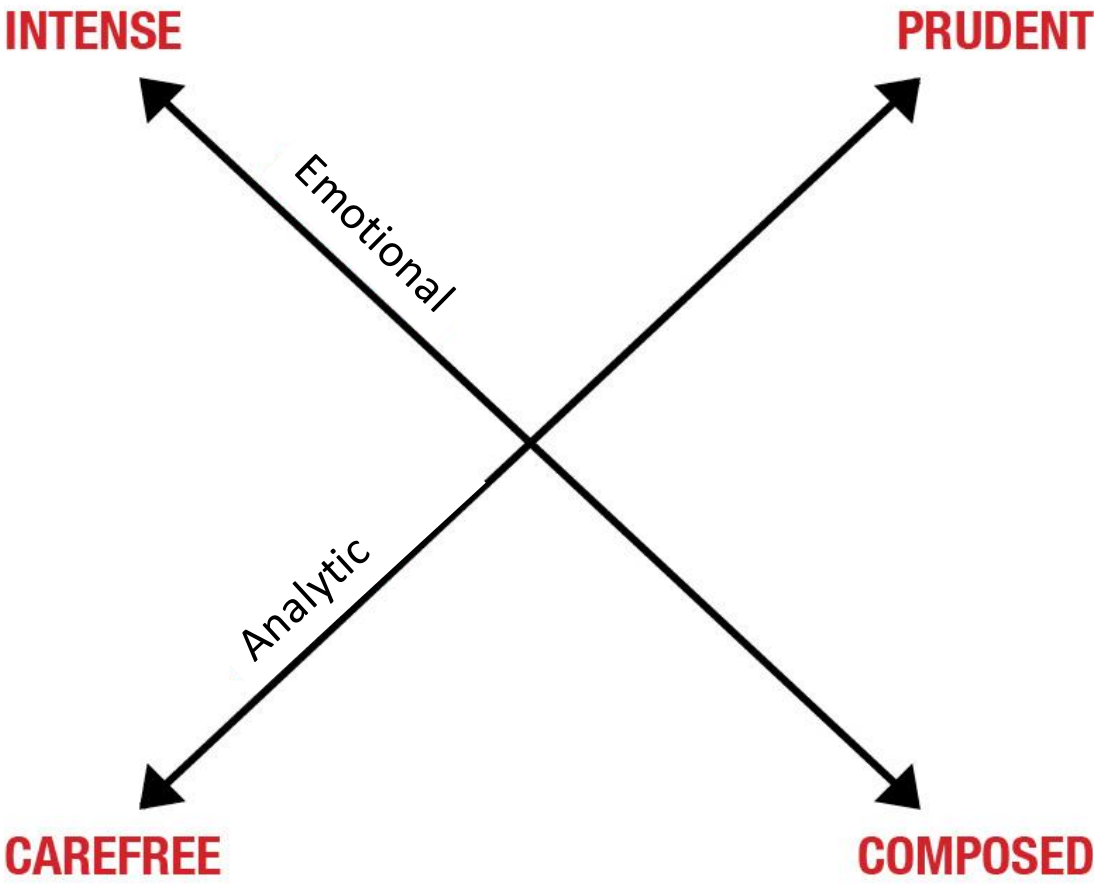
Emotion:

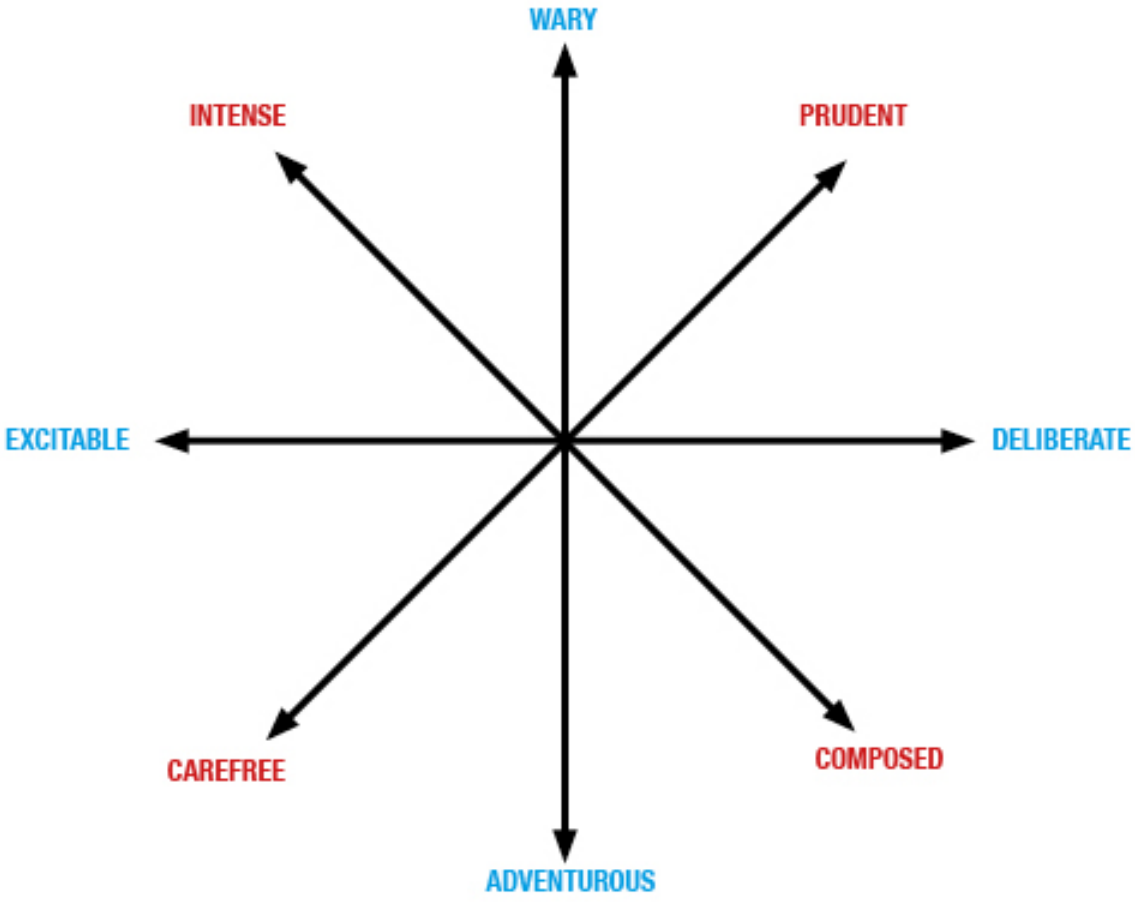
Fearful pessimists…….Calm optimists

Analysis:

Excitement seekers…….. Systematic planners

Risk Type




WARY
INTENSE
PRUDENT
EXCITABLE
DELIBERATE
CAREFREE
COMPOSED
ADVENTUROUS

The Risk Type Compass

Wary

Prudent

Deliberate

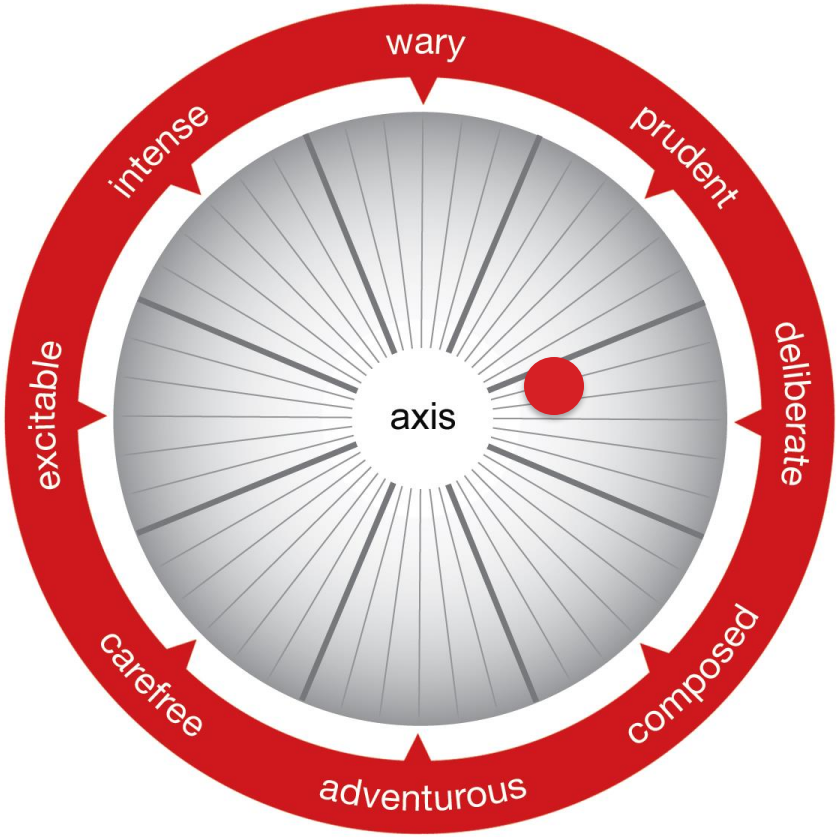
Composed

Adventurous

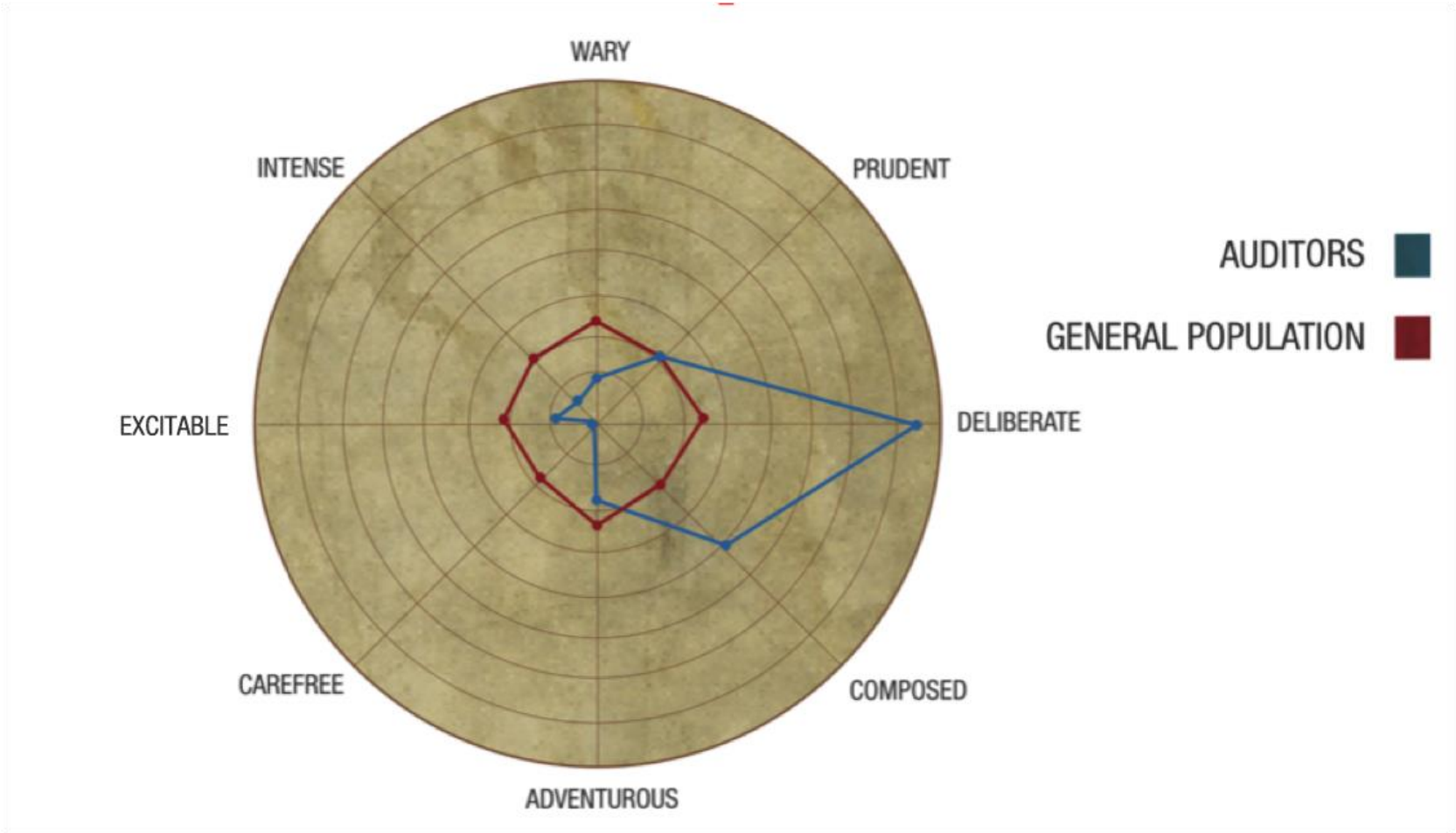
Carefree

Excitable

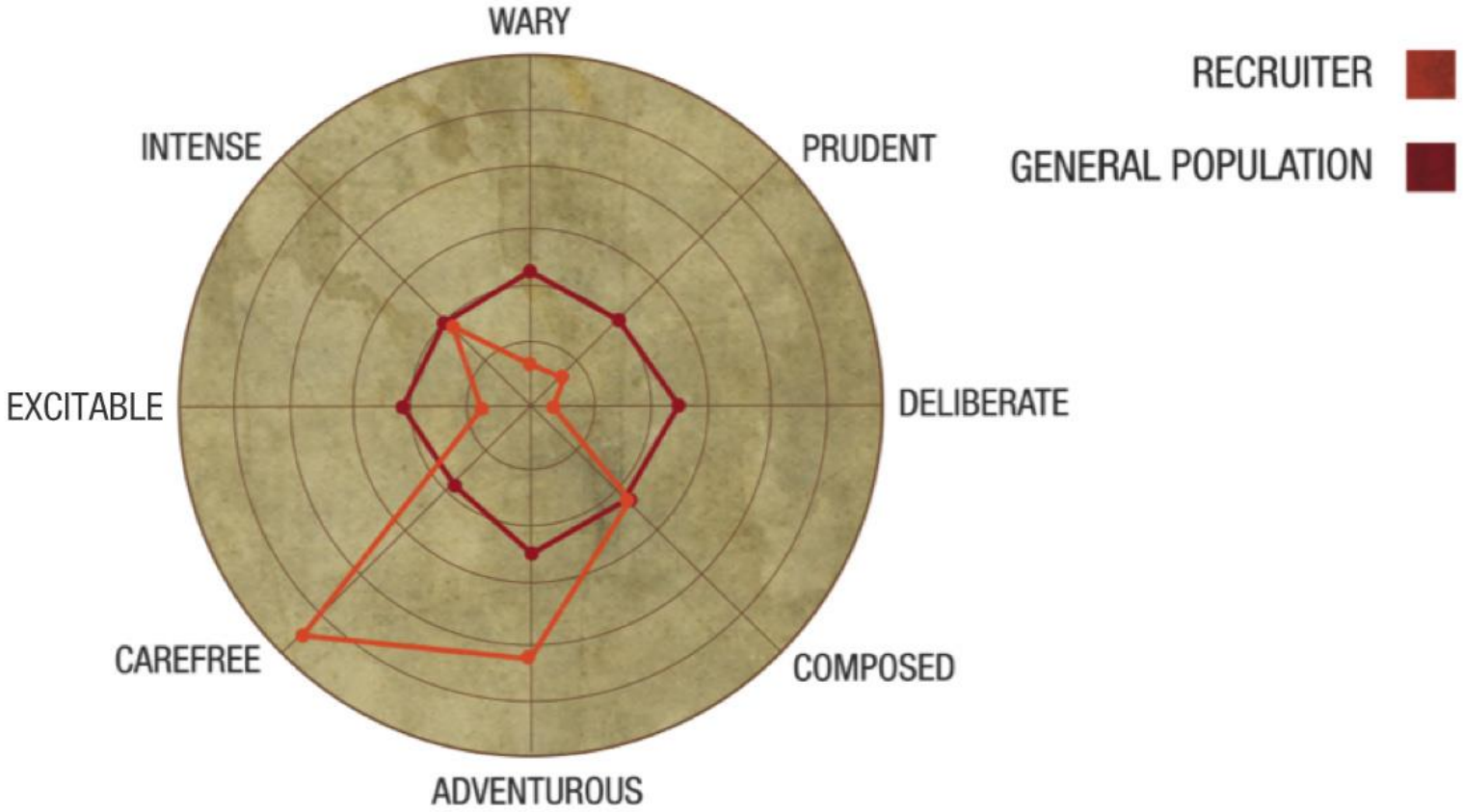
Intense



Auditors


WARY
PRUDENT
DELIBERATE
COMPOSED
ADVENTUROUS
CAREFREE
EXCITABLE
INTENSE
AUDITORS
GENERAL POPULATION

Recruiters


WARY
PRUDENT
DELIBERATE
COMPOSED
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CAREFREE
EXCITABLE
INTENSE
RECRUITER
GENERAL POPULATION

Prevalence of Risk Types

WARY	11.33%
PRUDENT	10.13%
DELIBERATE	12.60%
COMPOSED	11.07%
ADVENTUROUS	12.80%
CAREFREE	9.80%
SPONTANEOUS	11.67%
INTENSE	10.00%

Team Homo Sapiens

Different People – Different Solutions

Personality

Persistent and pervasive influence

Consistent behavioural bias

Different strategies for different traders

THANK YOU

CONTACT

01892 559540

www.psychological-consultancy.com

The Value of Understanding Trader and Investor Personality.

Steven Goldstein
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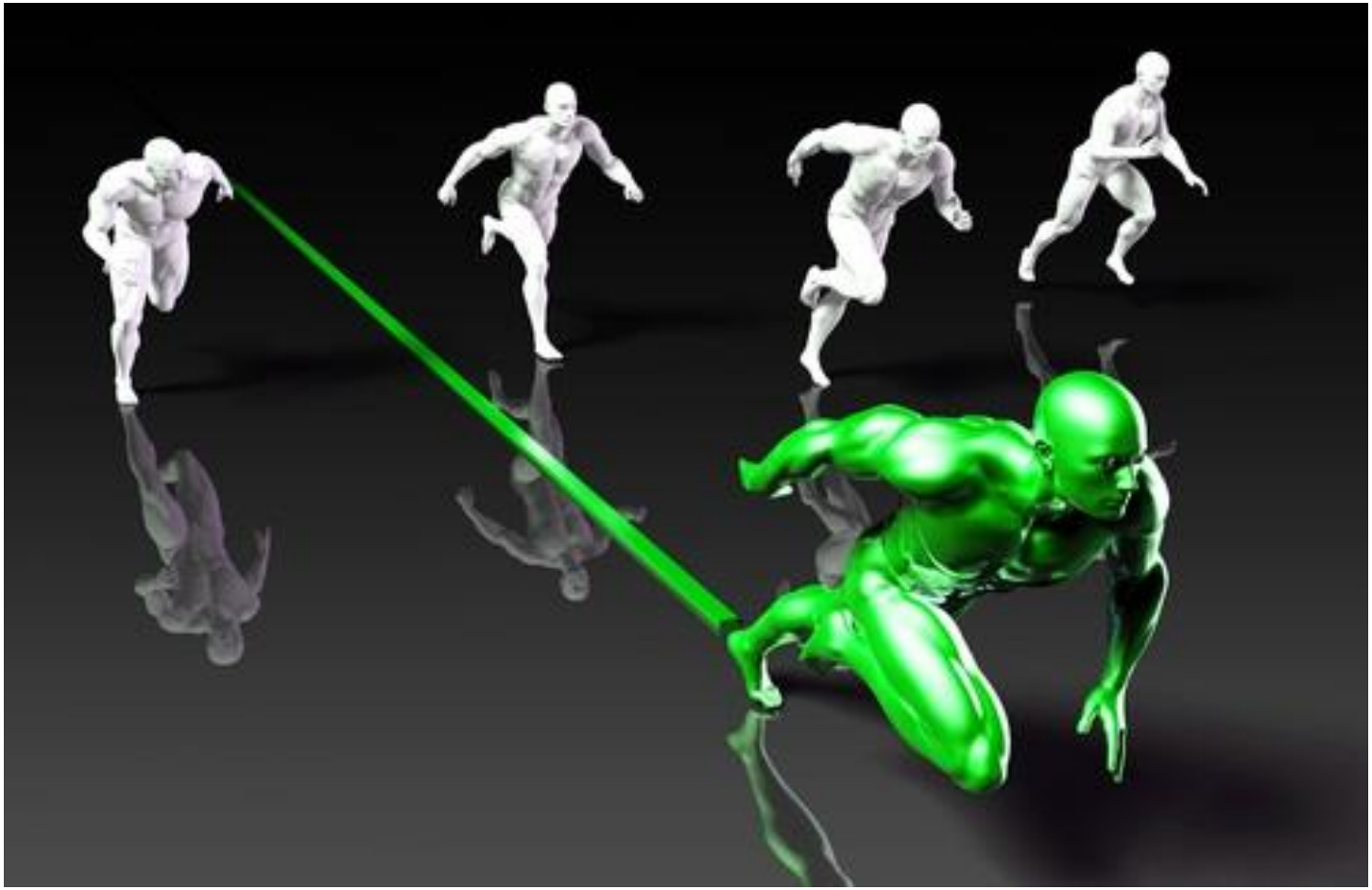

The Value of Understanding Trader and Investor Personality.

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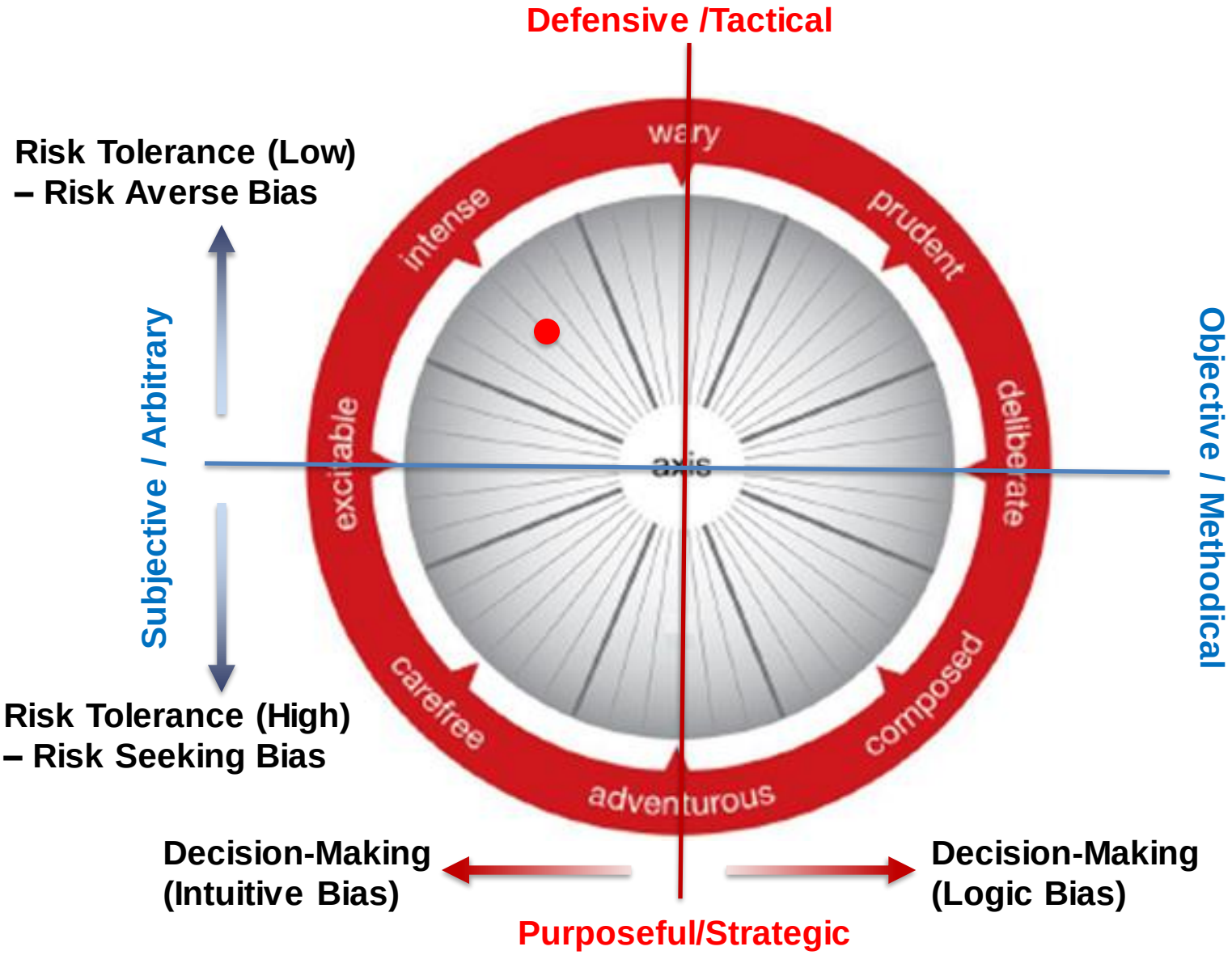
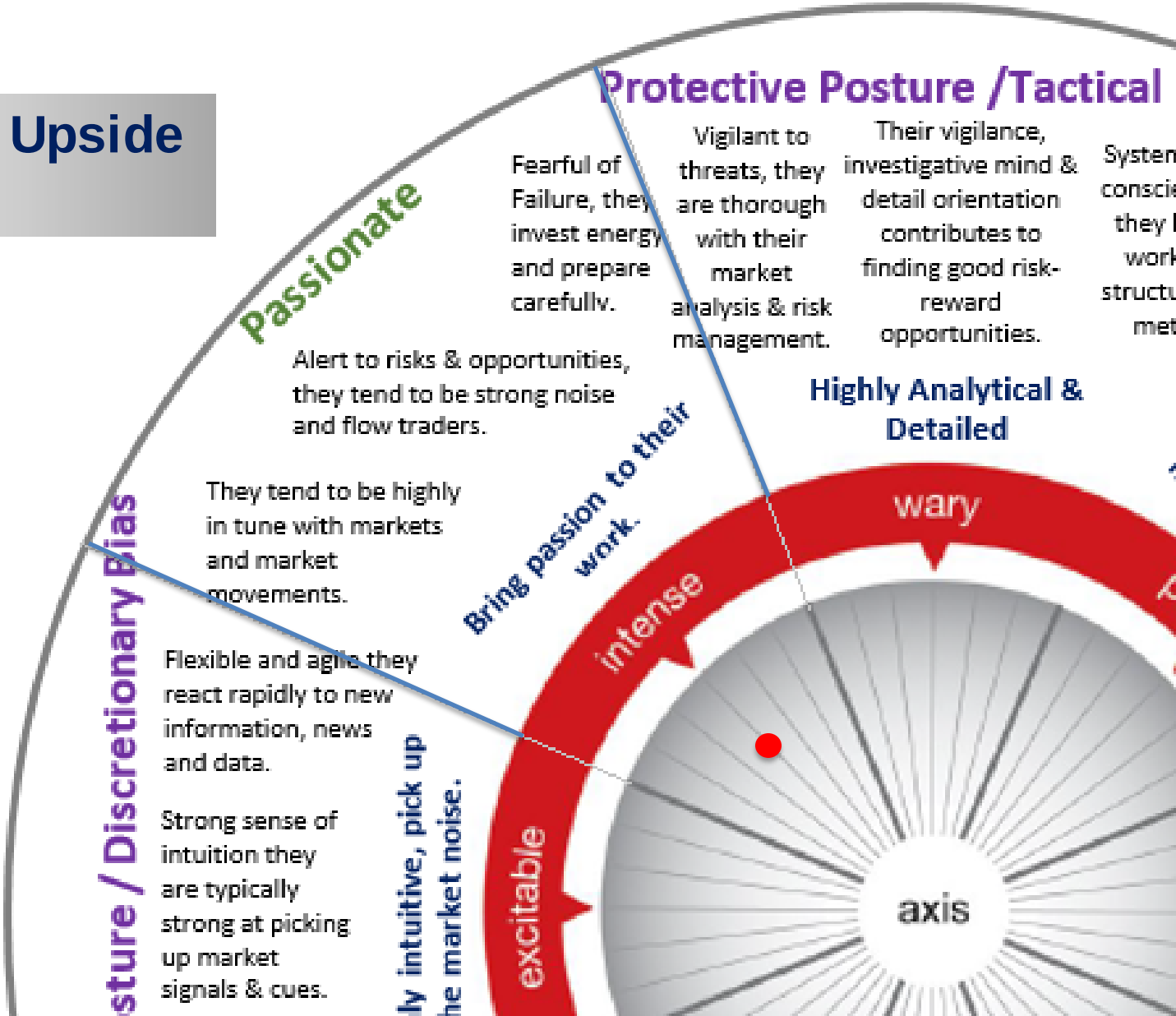
Observed Tendencies and Biases



Observed Tendencies and Biases

Observed Upside Traits



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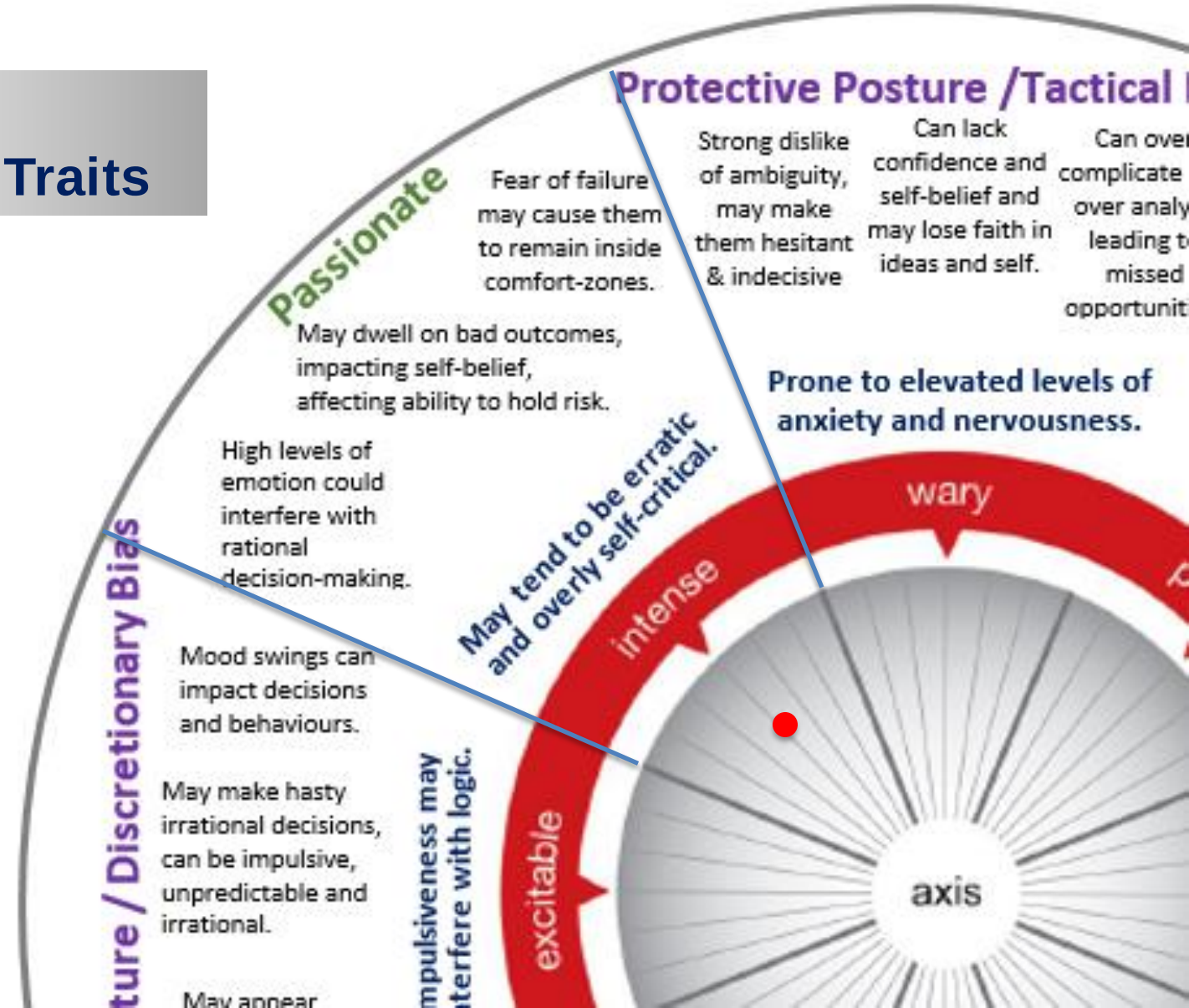
Observed Downside Traits

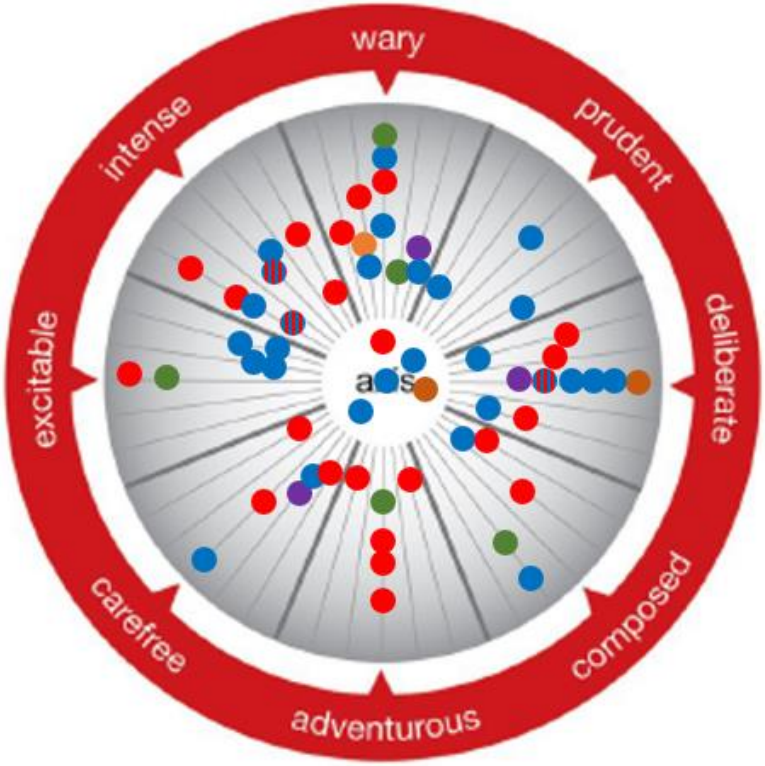


Distribution by Asset Class

Defensive /Tactical – Risk Averse Bias

Traders A Class

- FX
- Rates/ income
- Commodity/Energy
- Credit
- Equity
- Cross Asset



(Intuitive Subjective / Arbitrary)

(Logic Bias) Objective / Methodical

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

Purposeful/Strategic – Risk Seeking Bias

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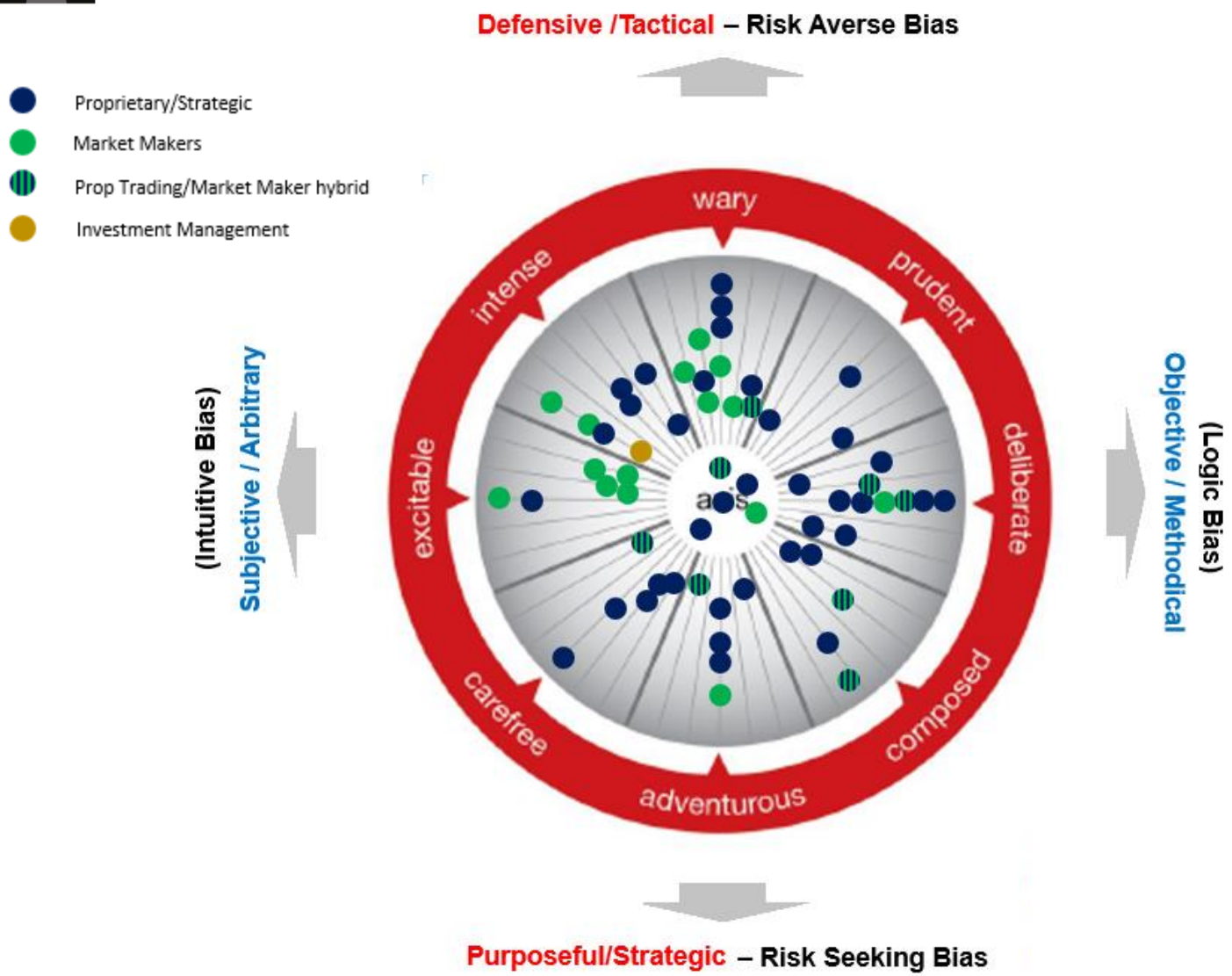

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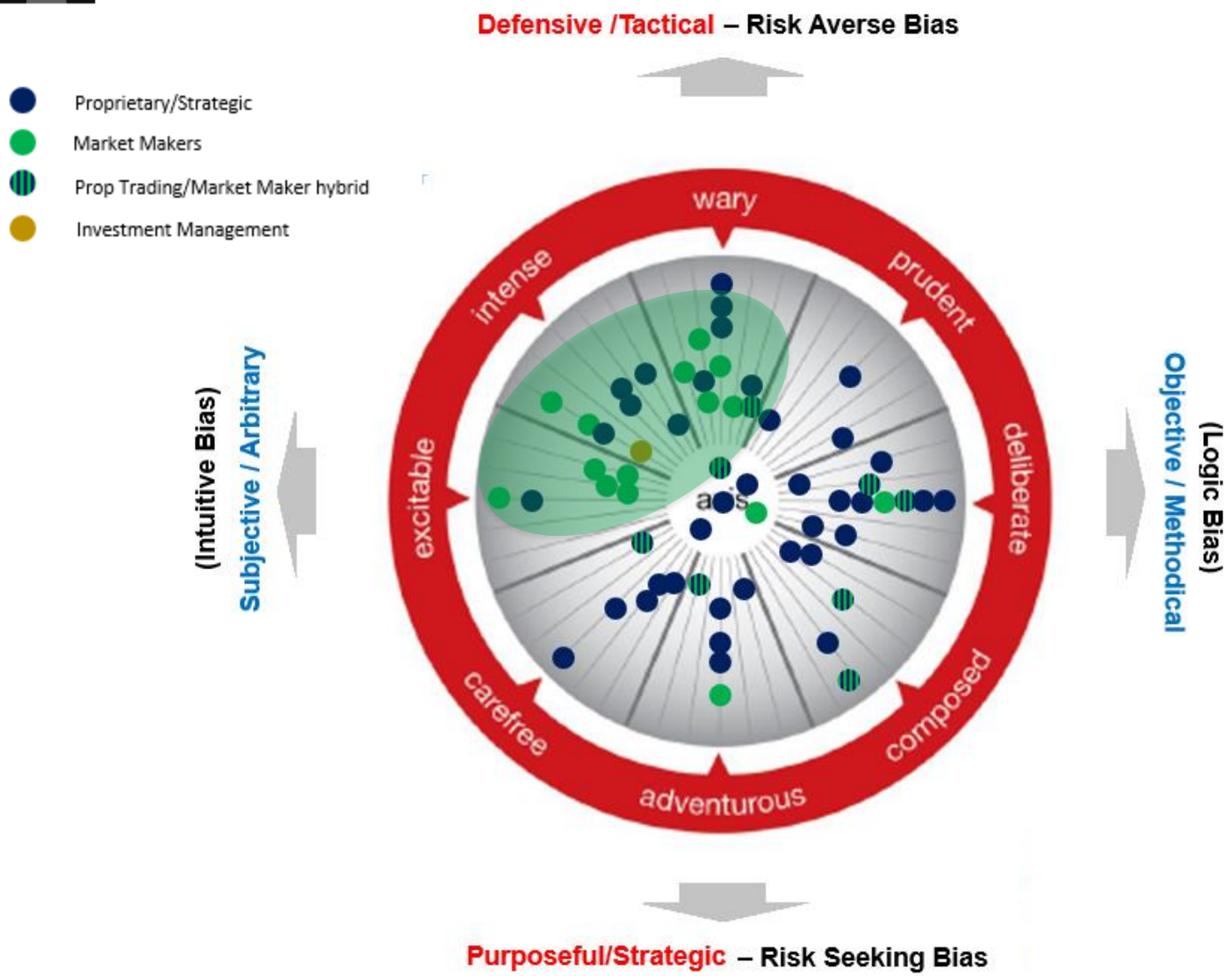
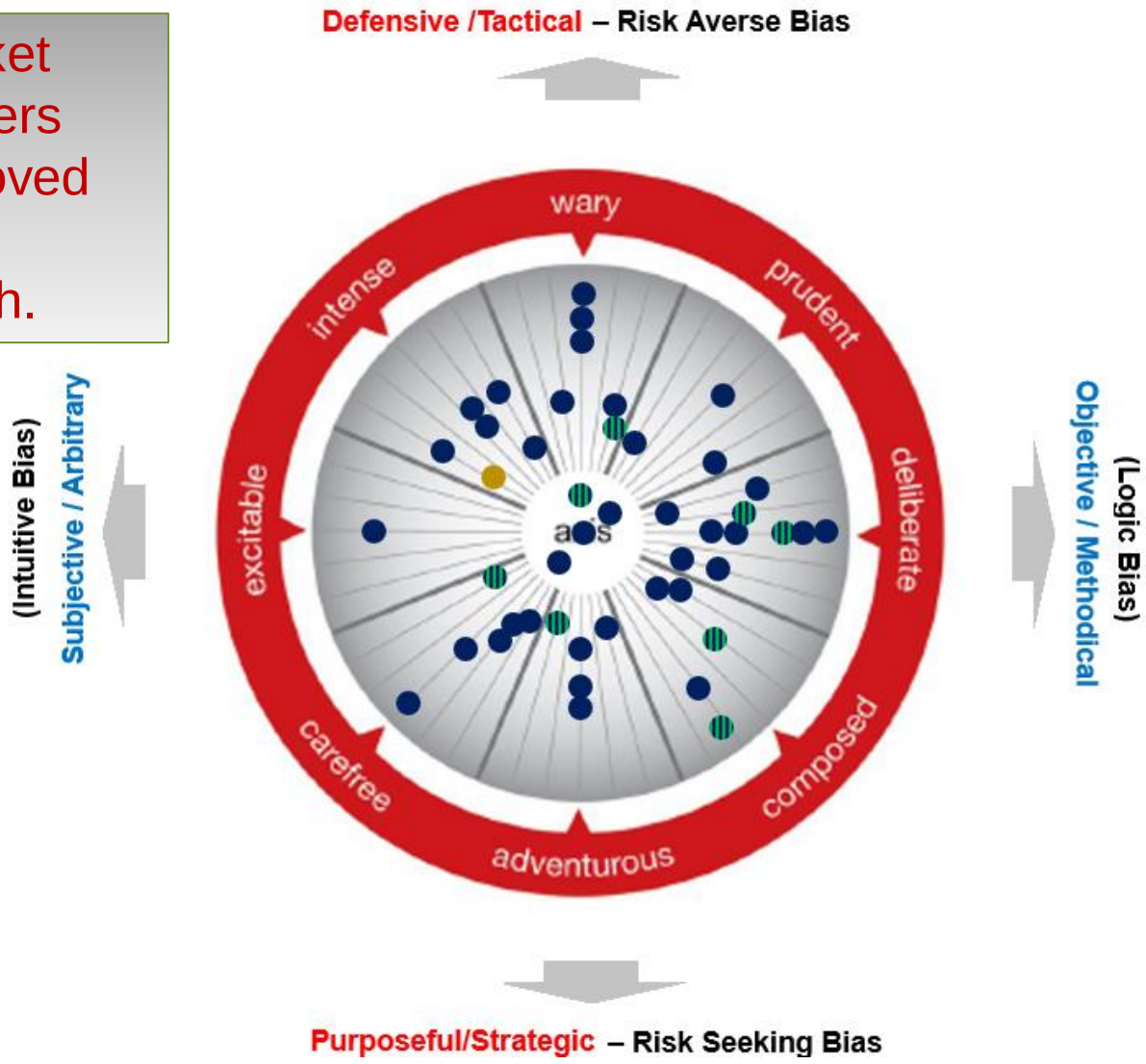


Proprietary/Strategic only

Market Makers removed from graph.



Approach to Trading.

- **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.*
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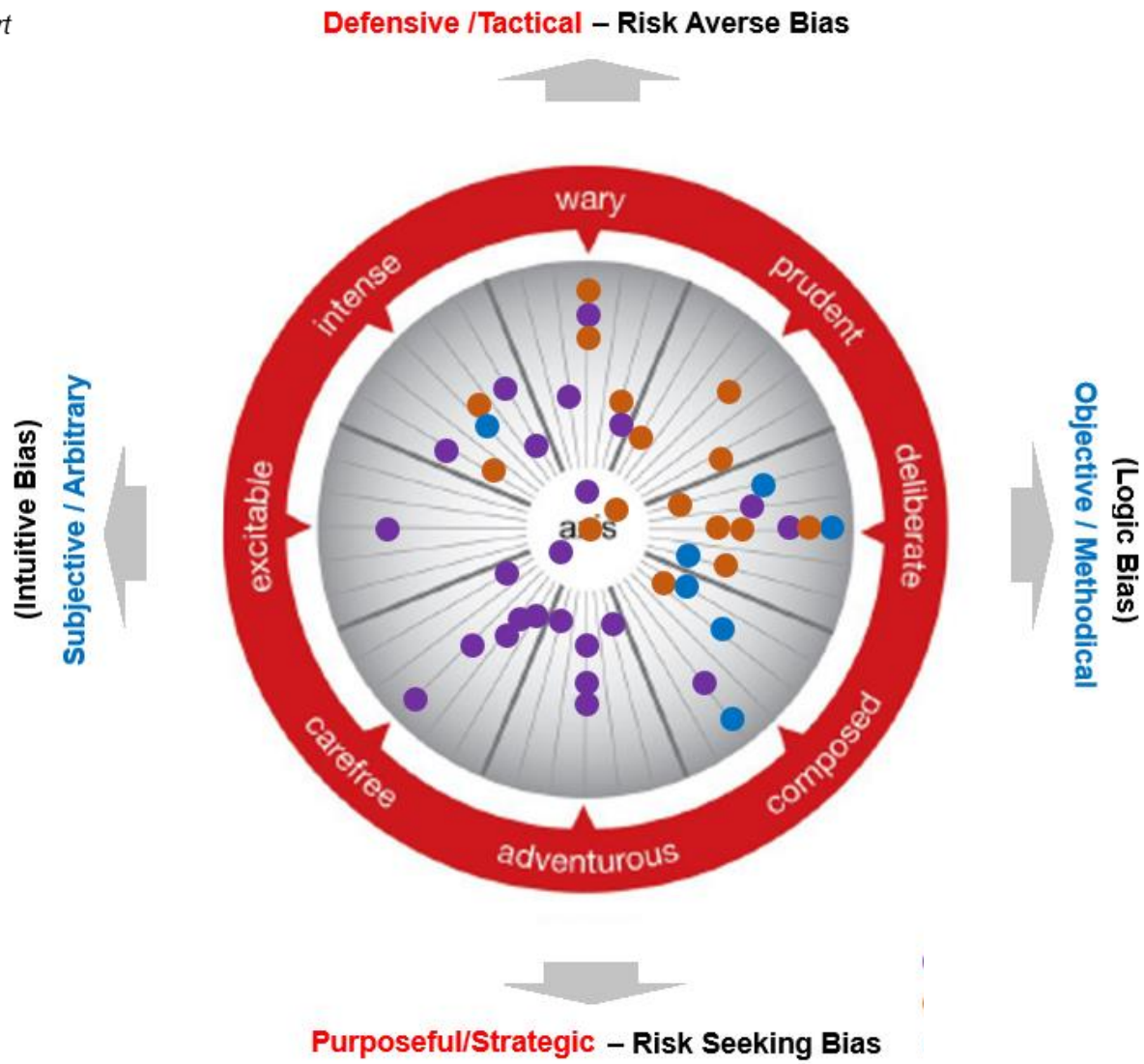

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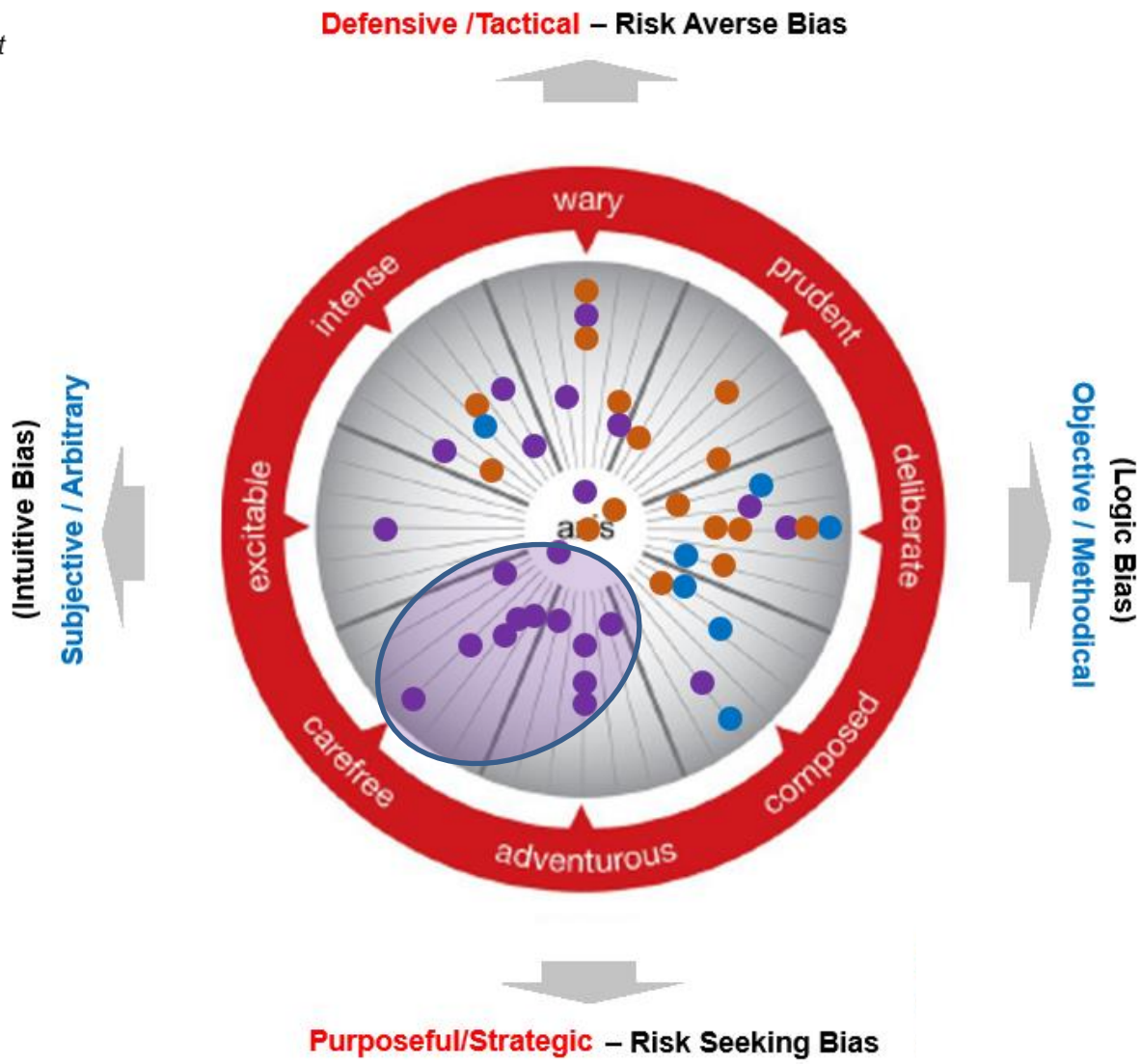

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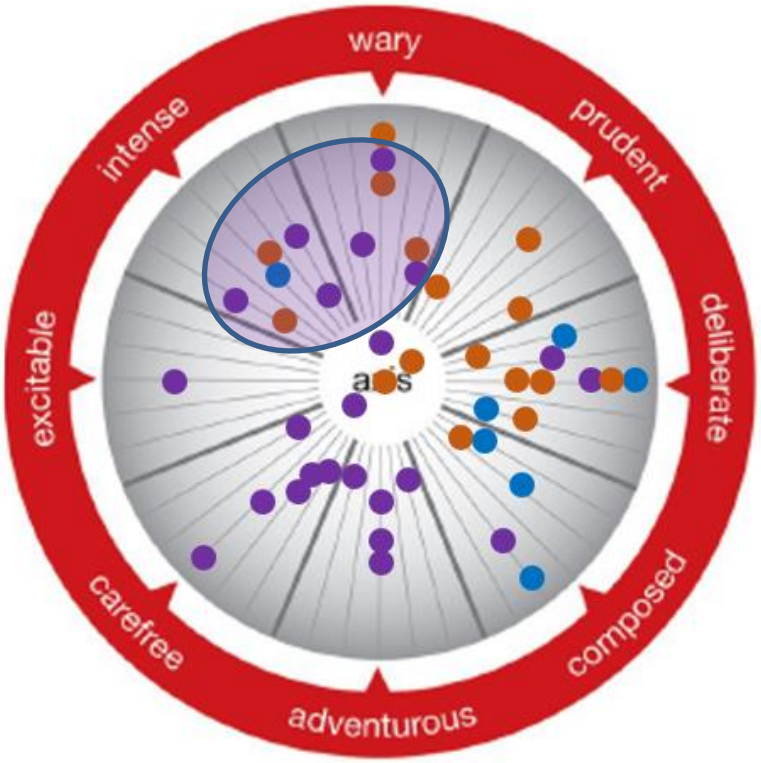

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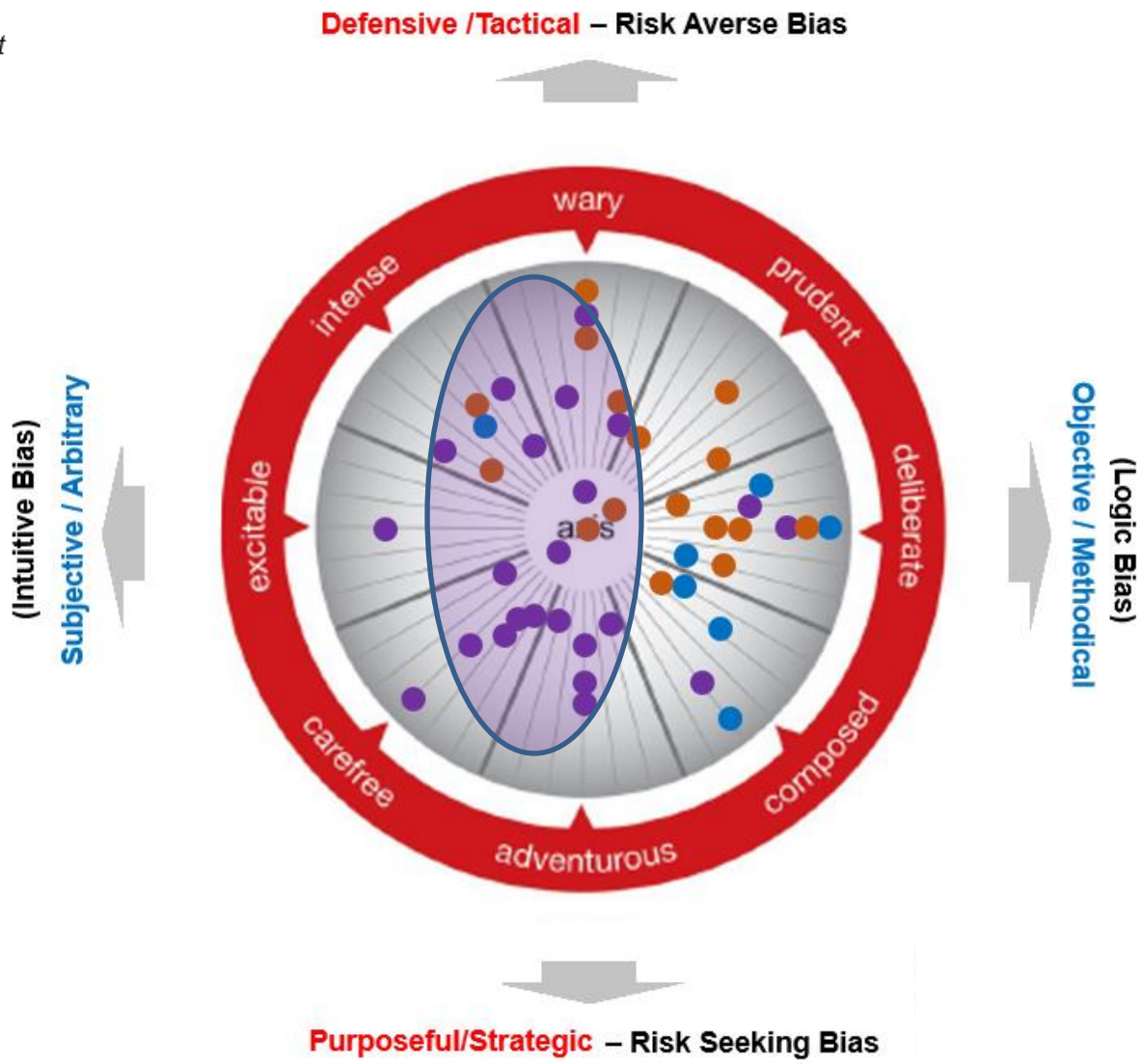

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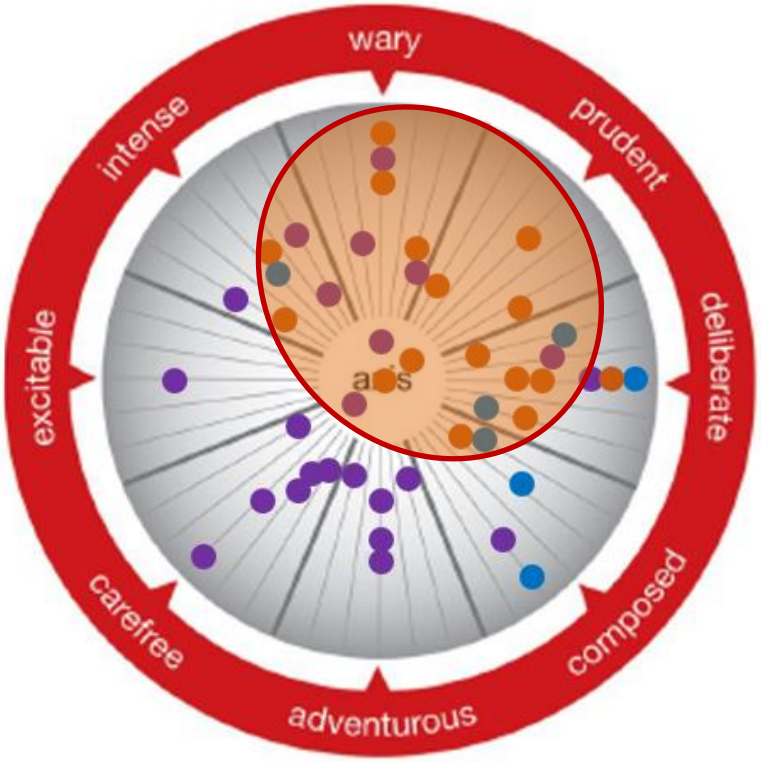

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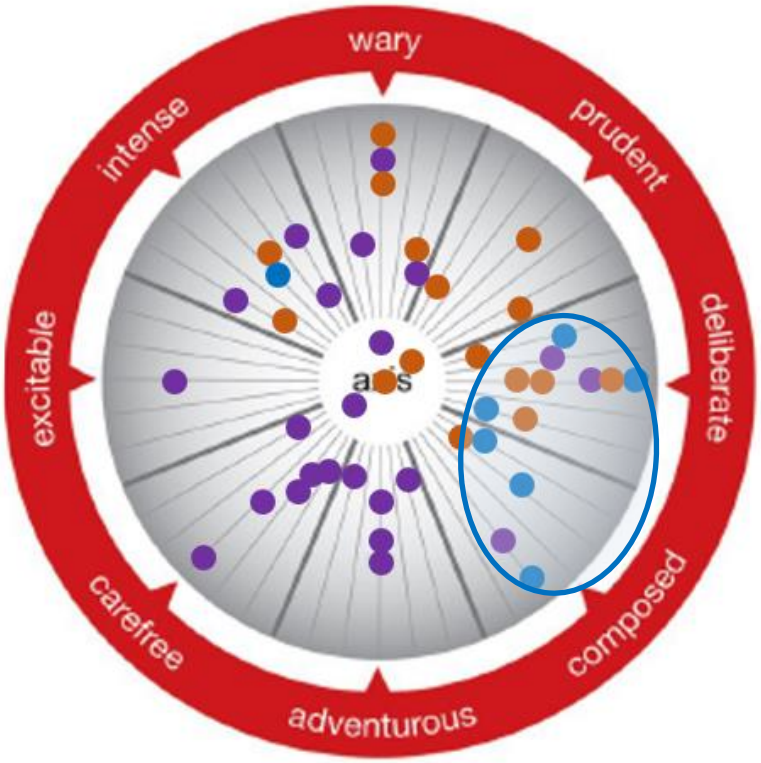

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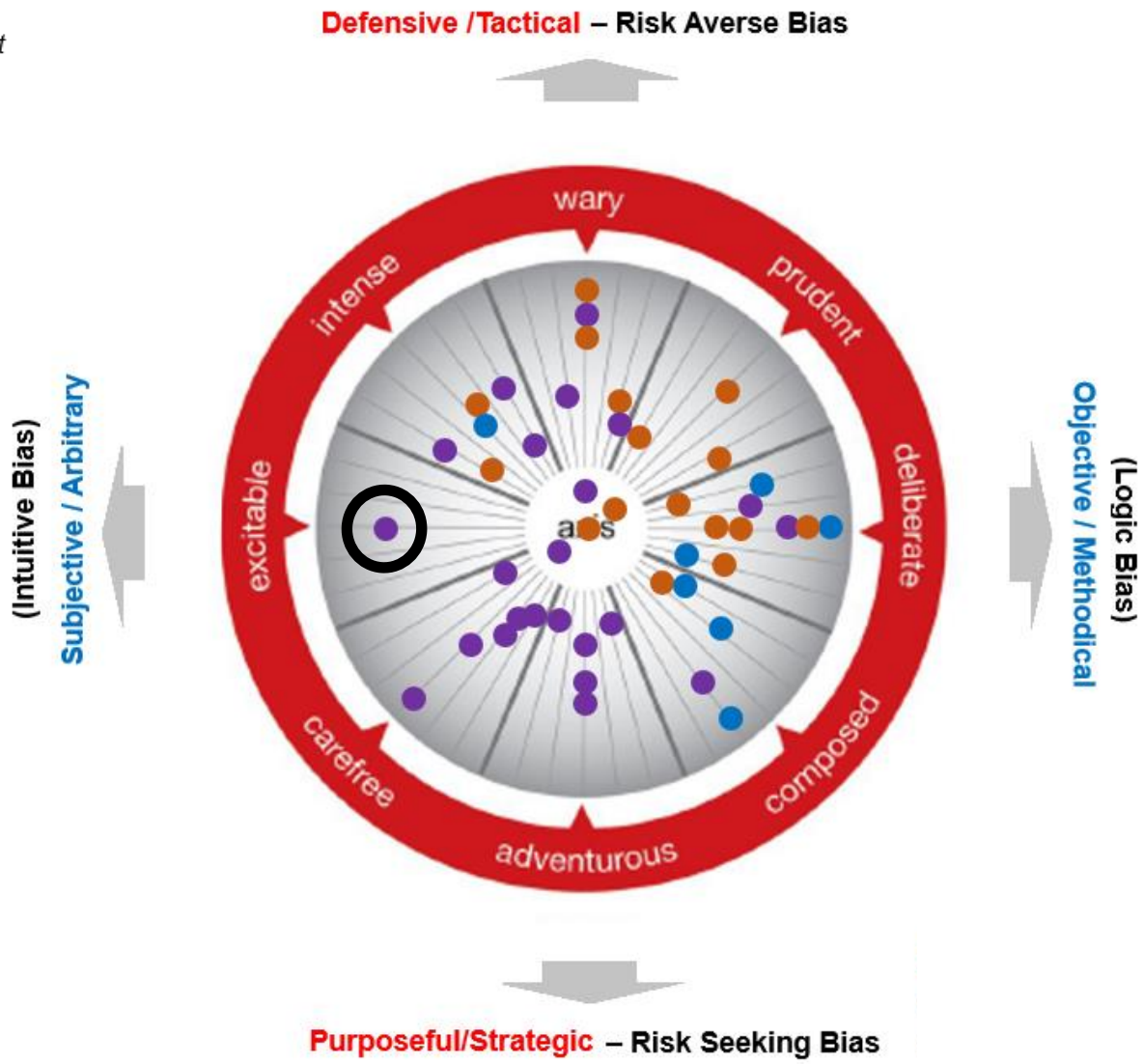

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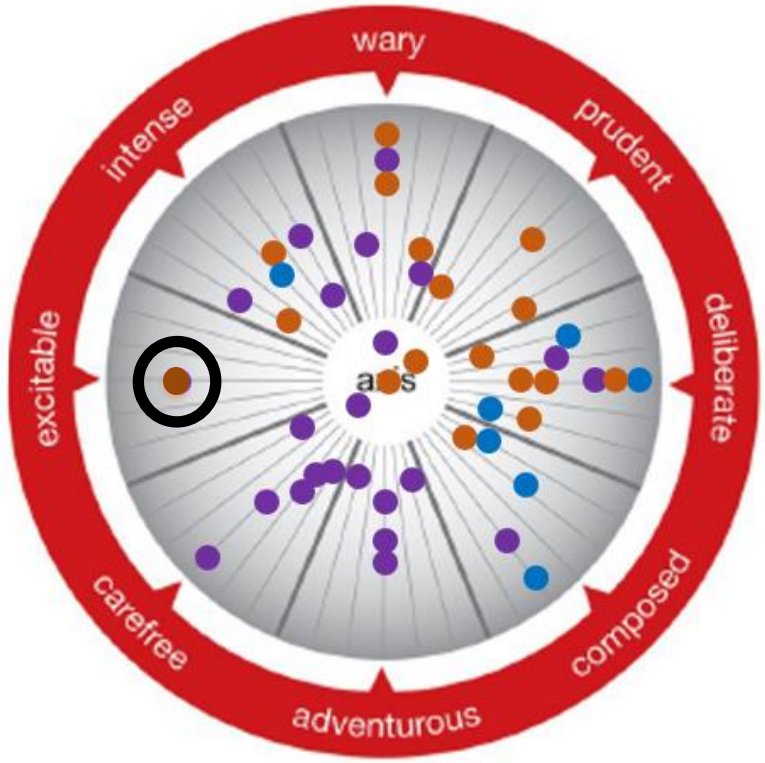

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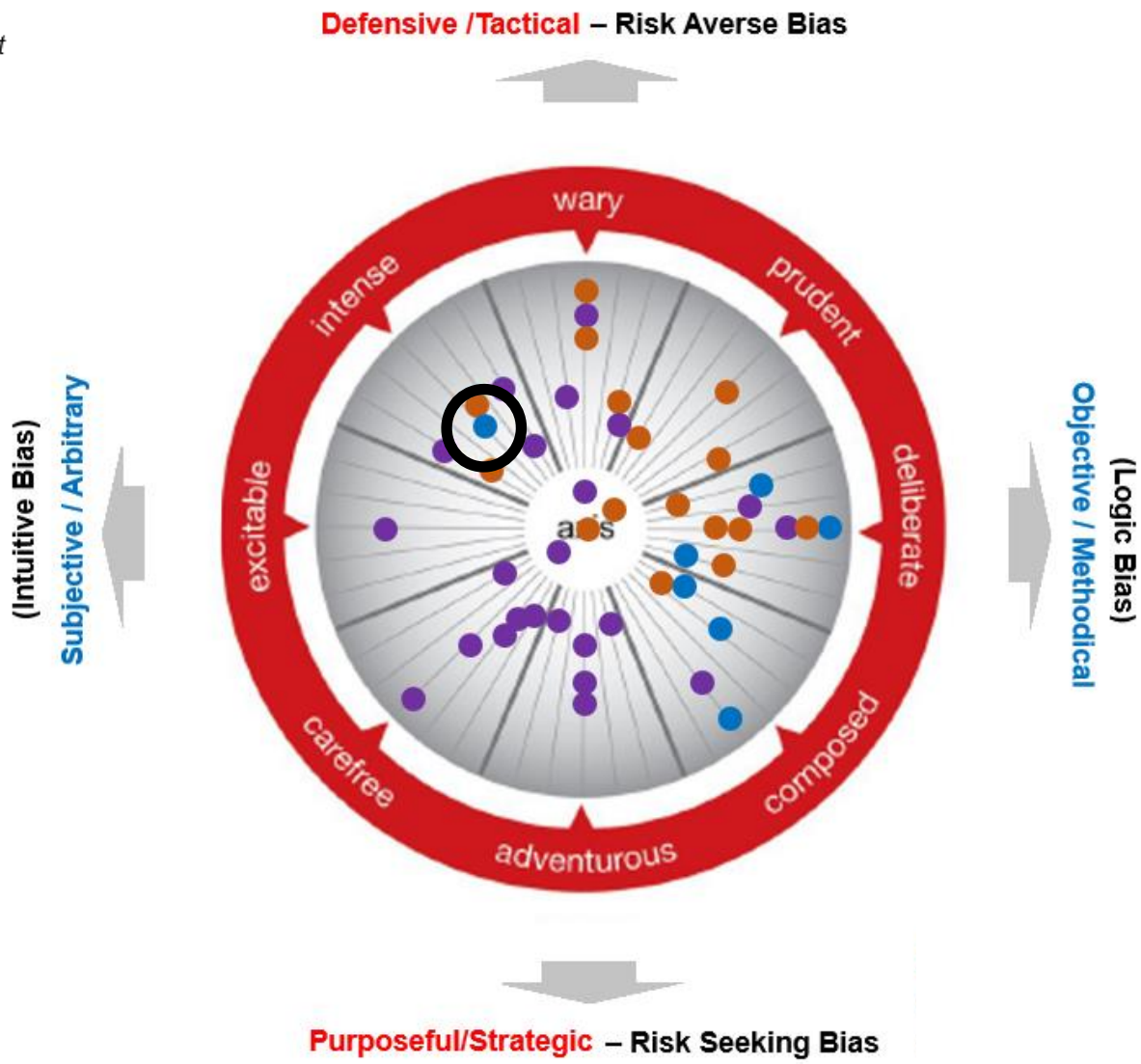

By Average Trading Holding Period

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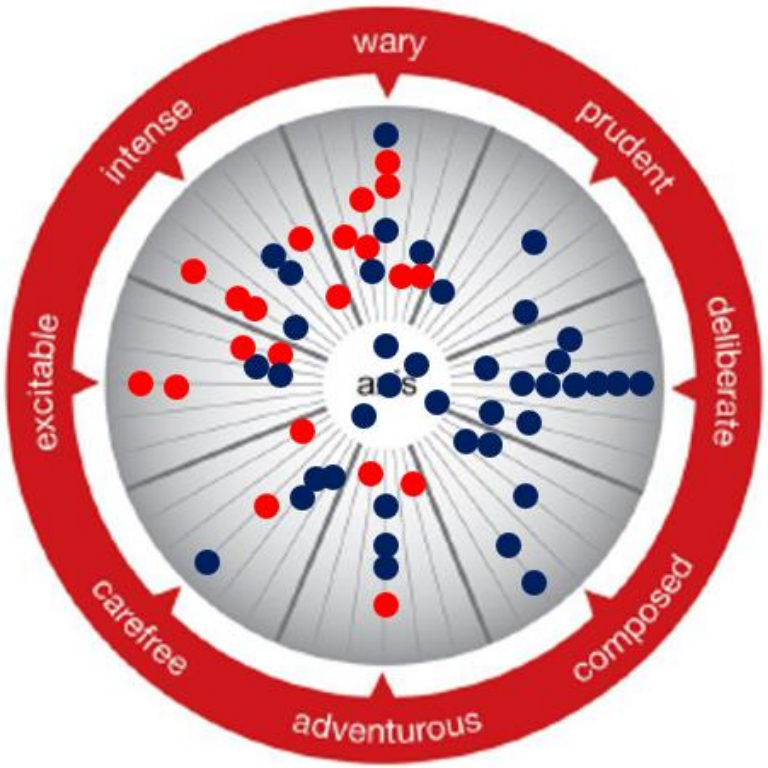

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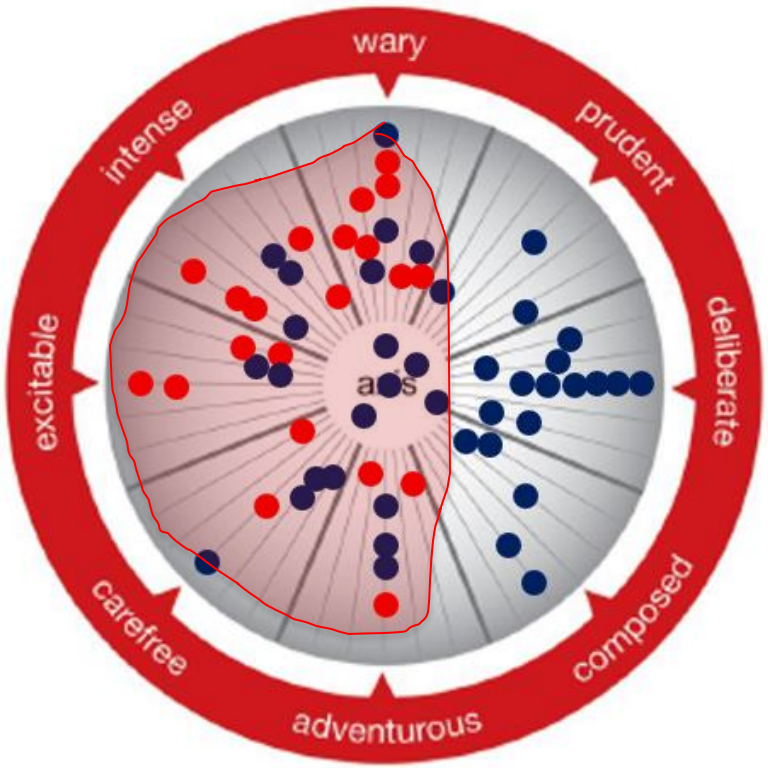

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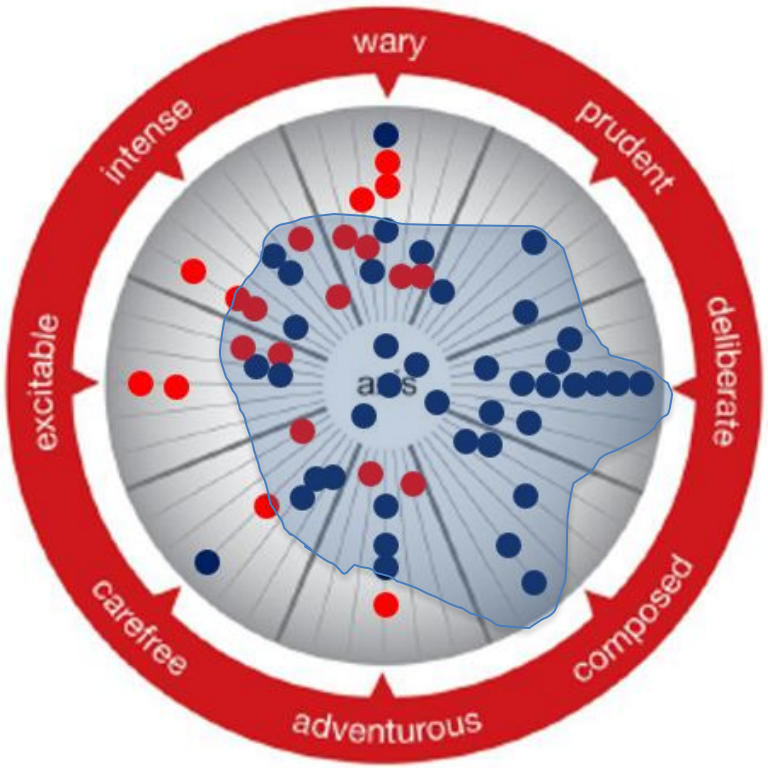

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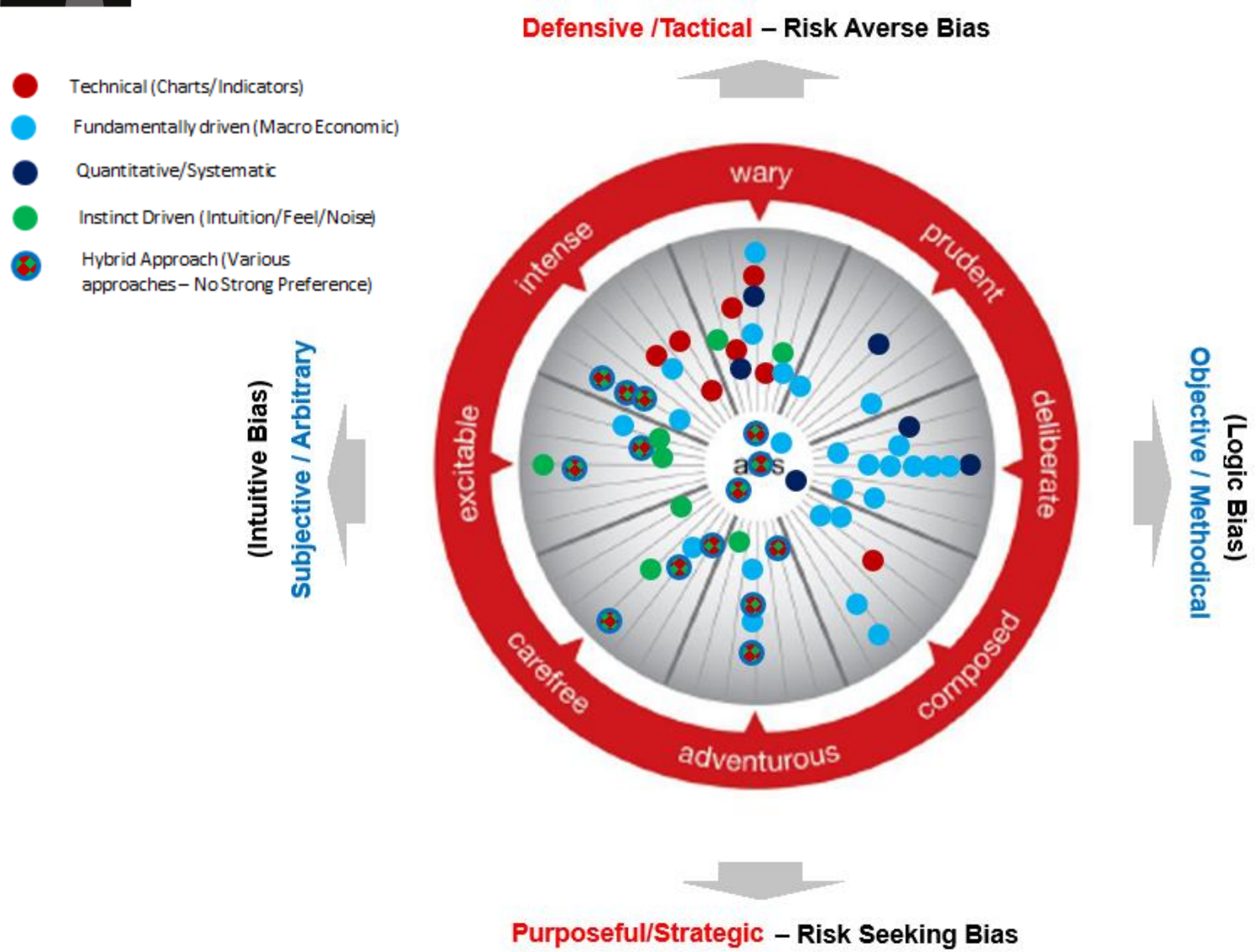

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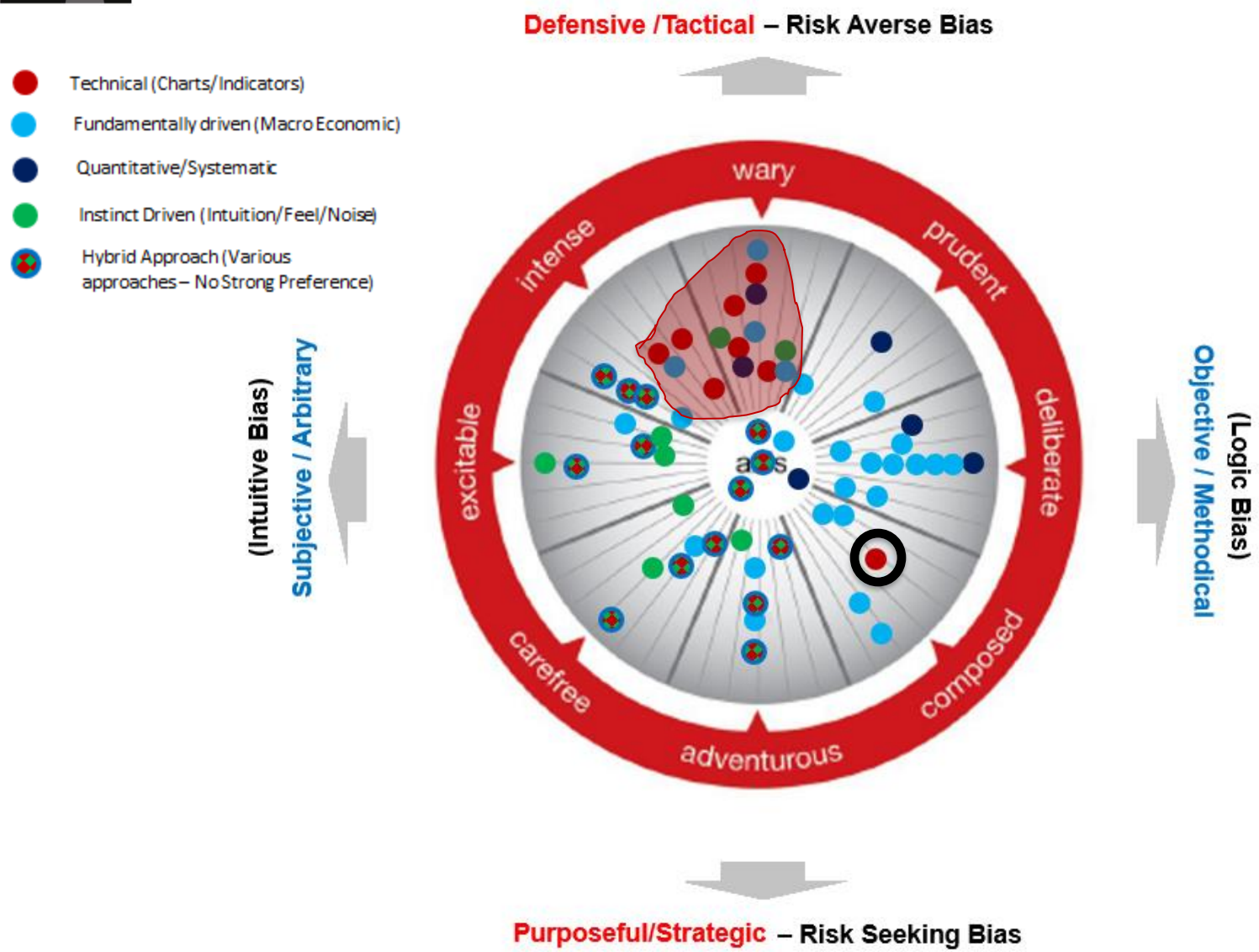

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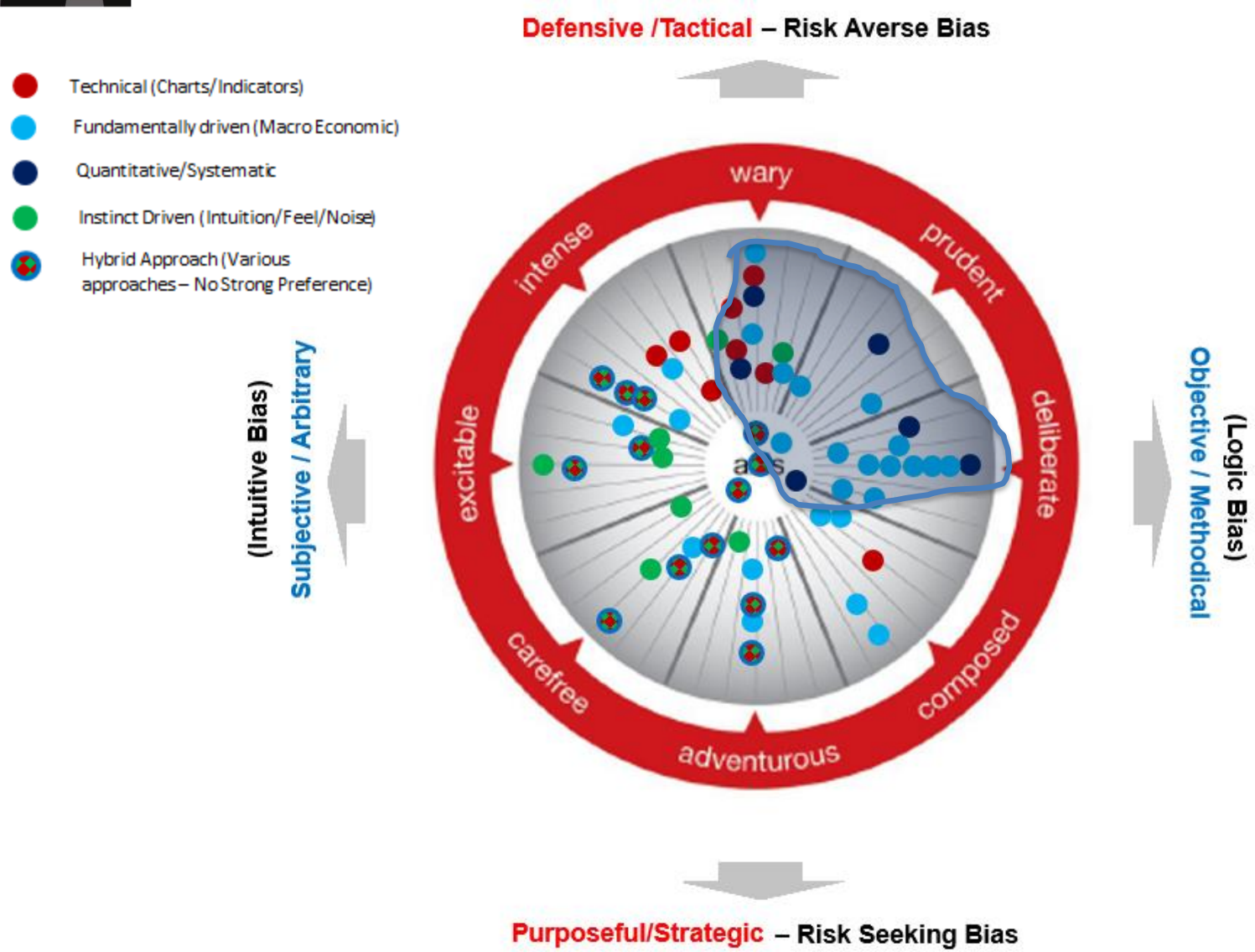

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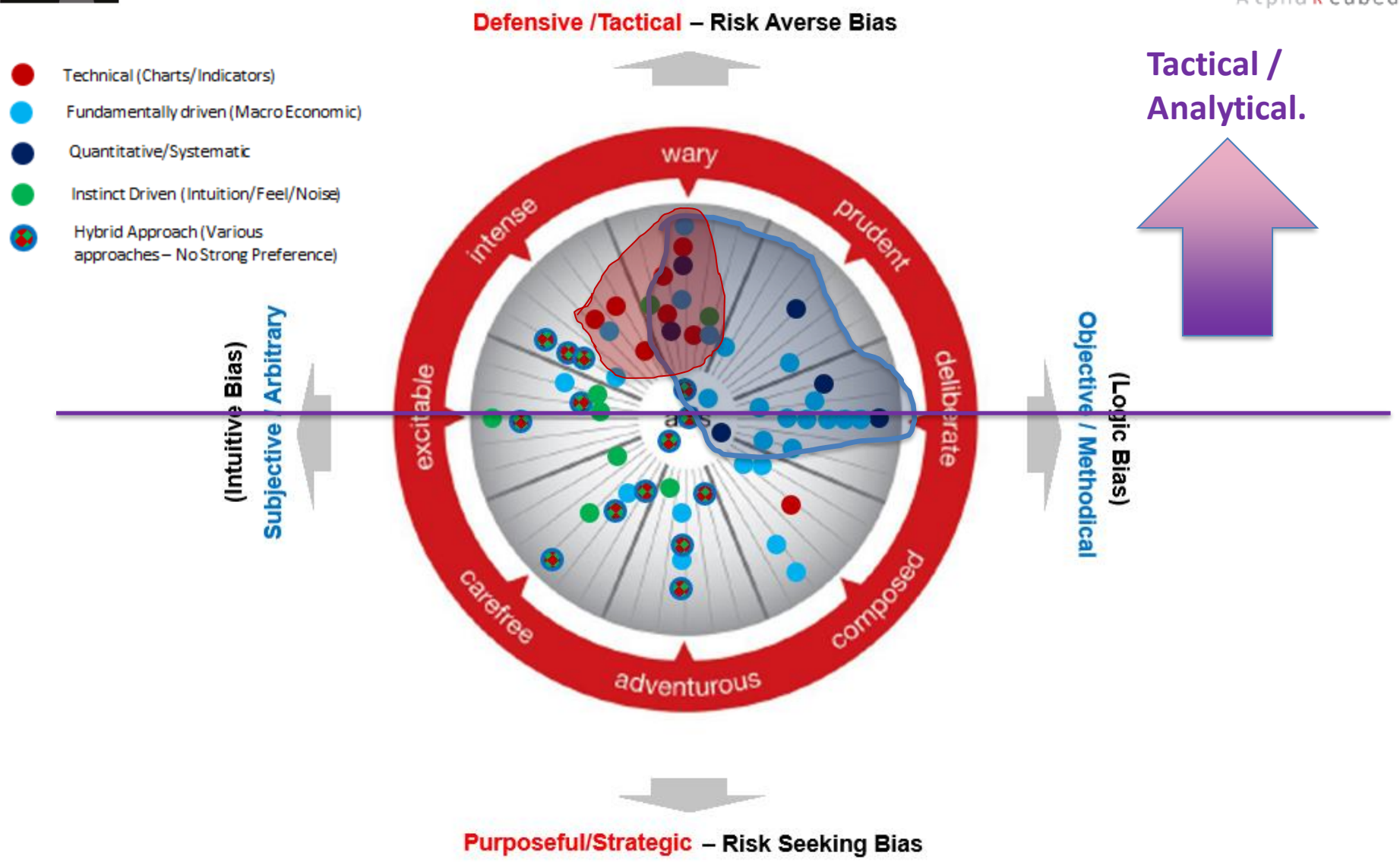

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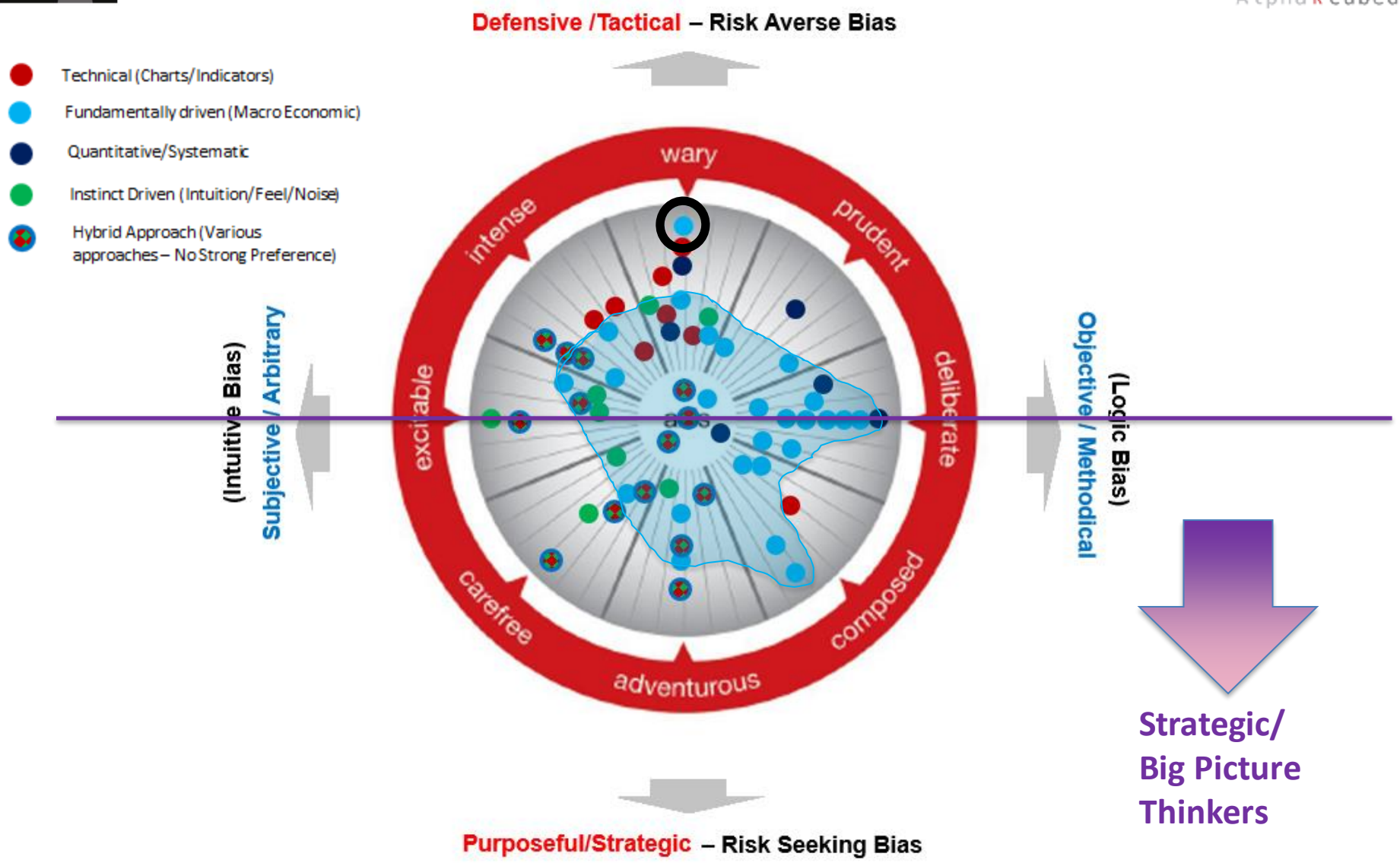

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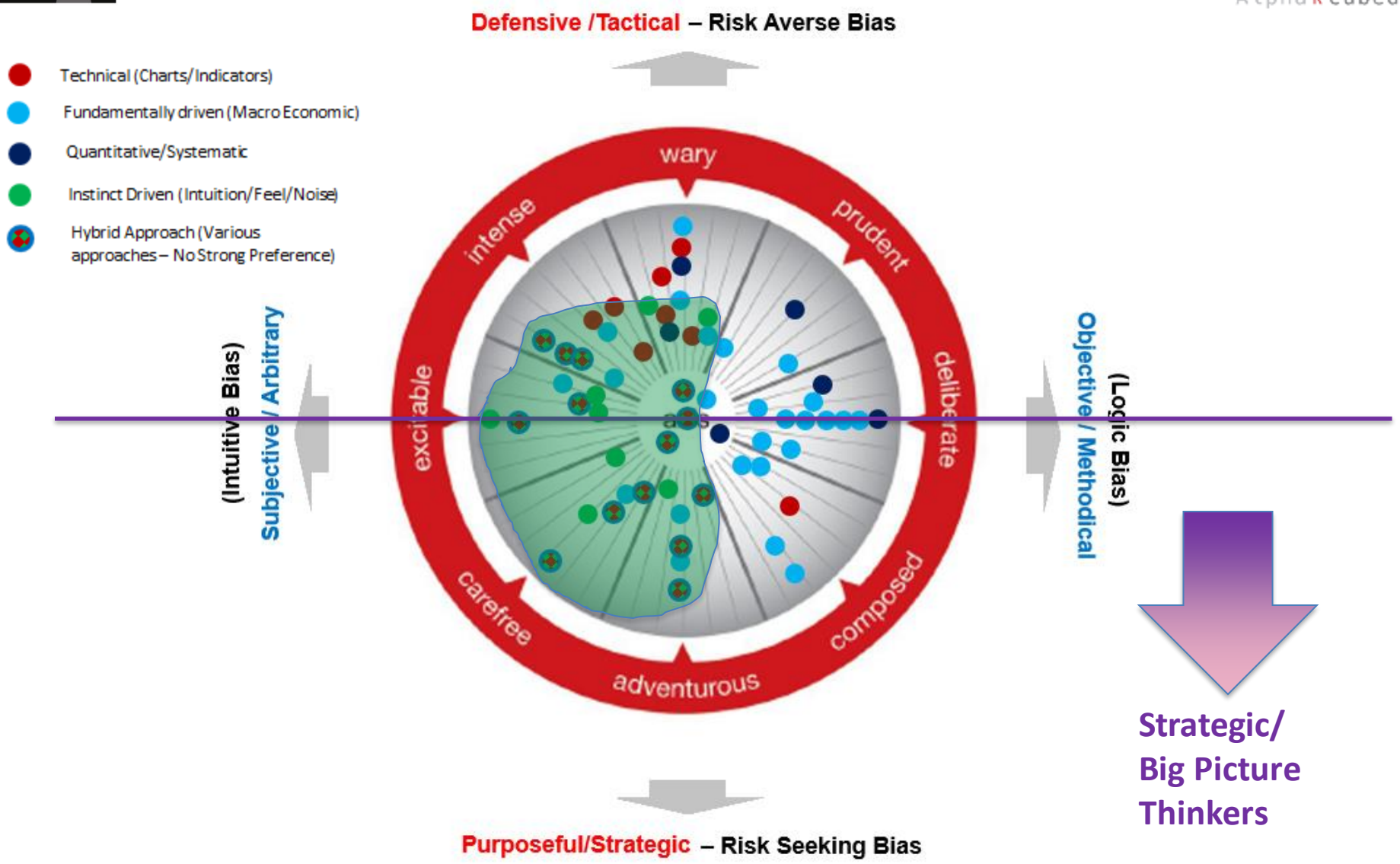

Distribution by Asset Class

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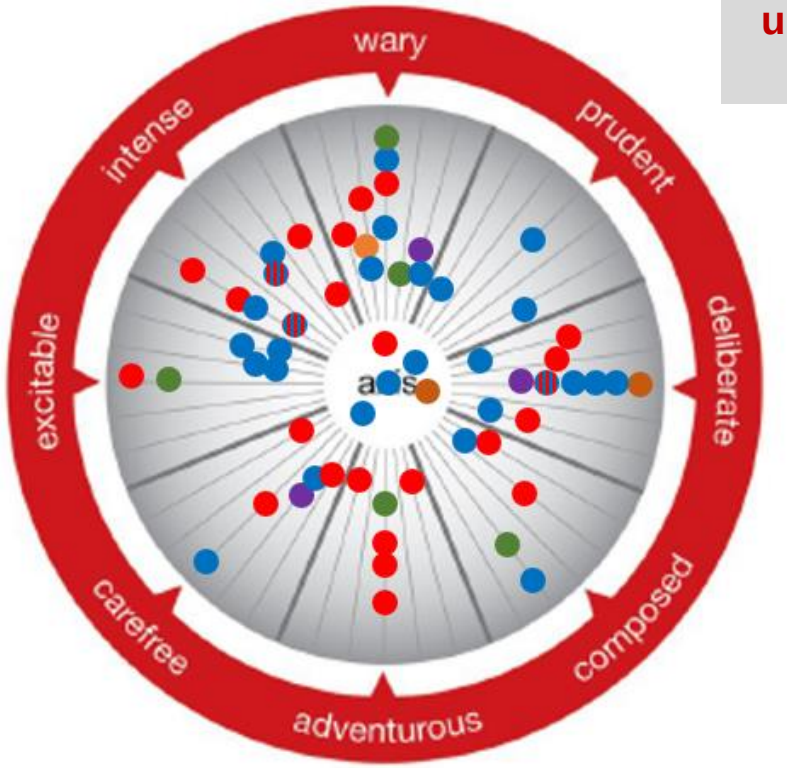

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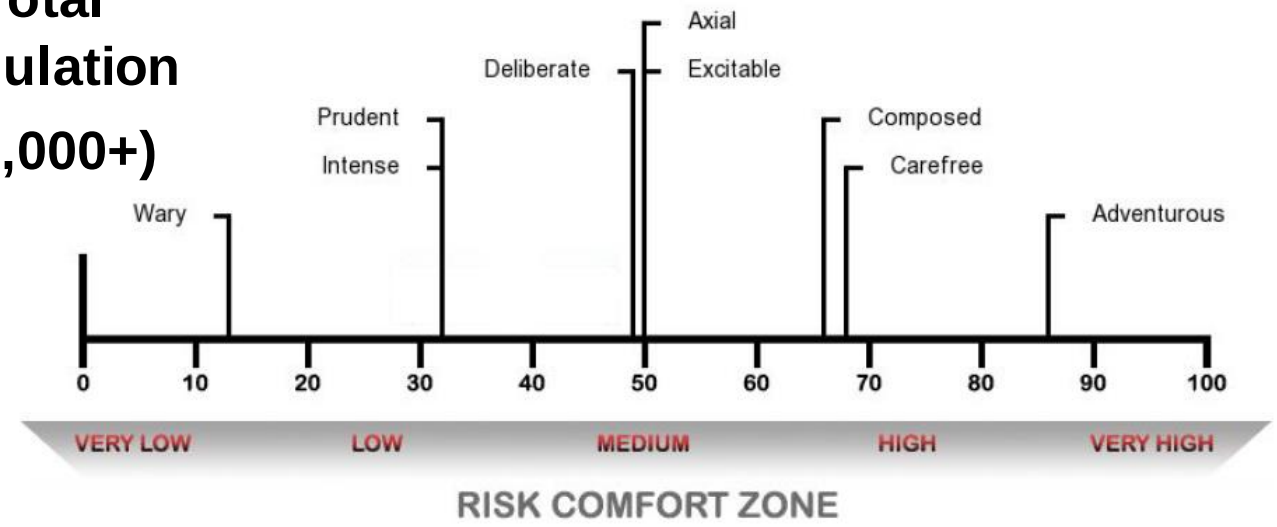
RISK TOLERANCE INDEX

Total Population (10,000+)



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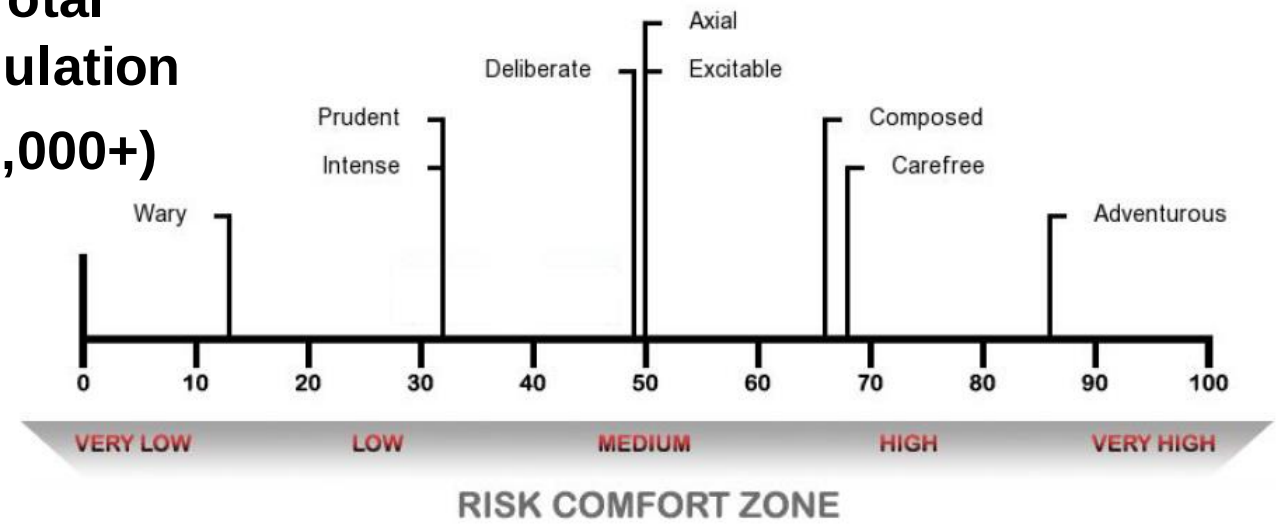
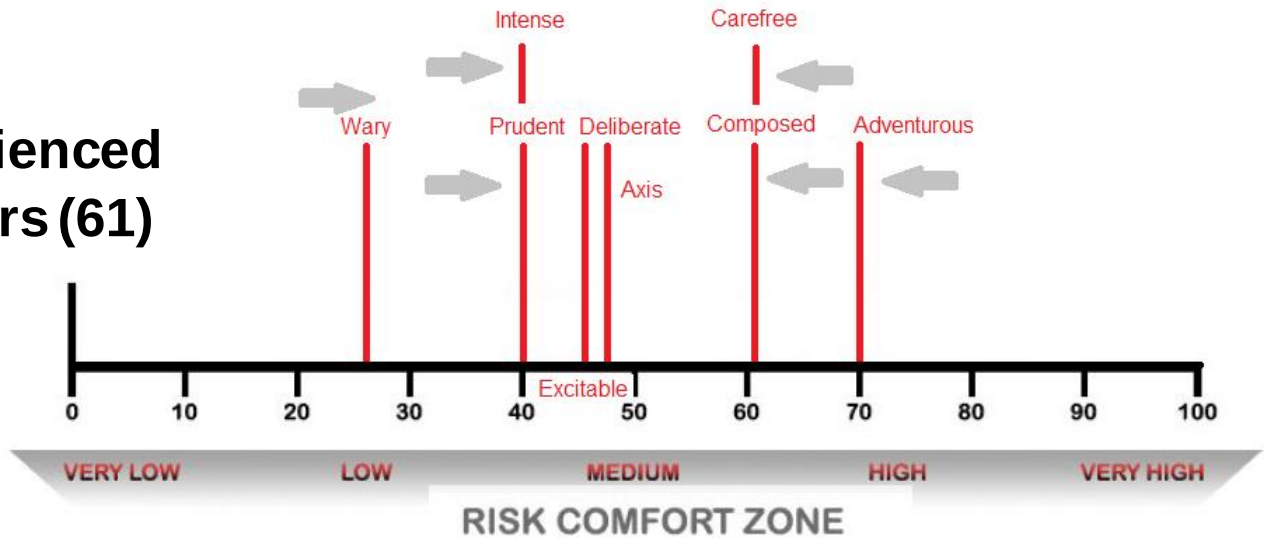
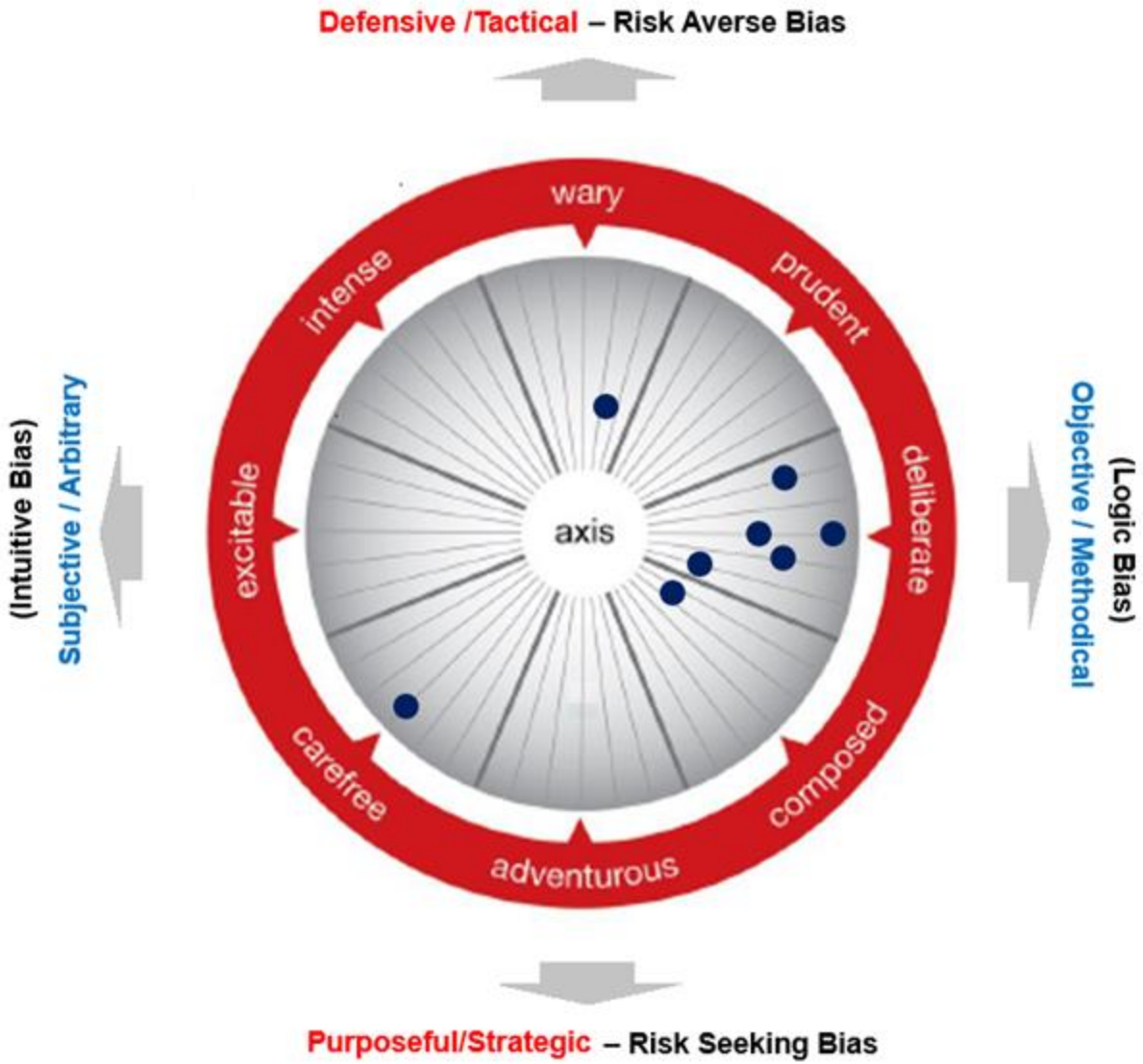


Experienced Traders (61)



Using RTC for Team Risk Analysis.

High Performing Hedge Fund Team 1:



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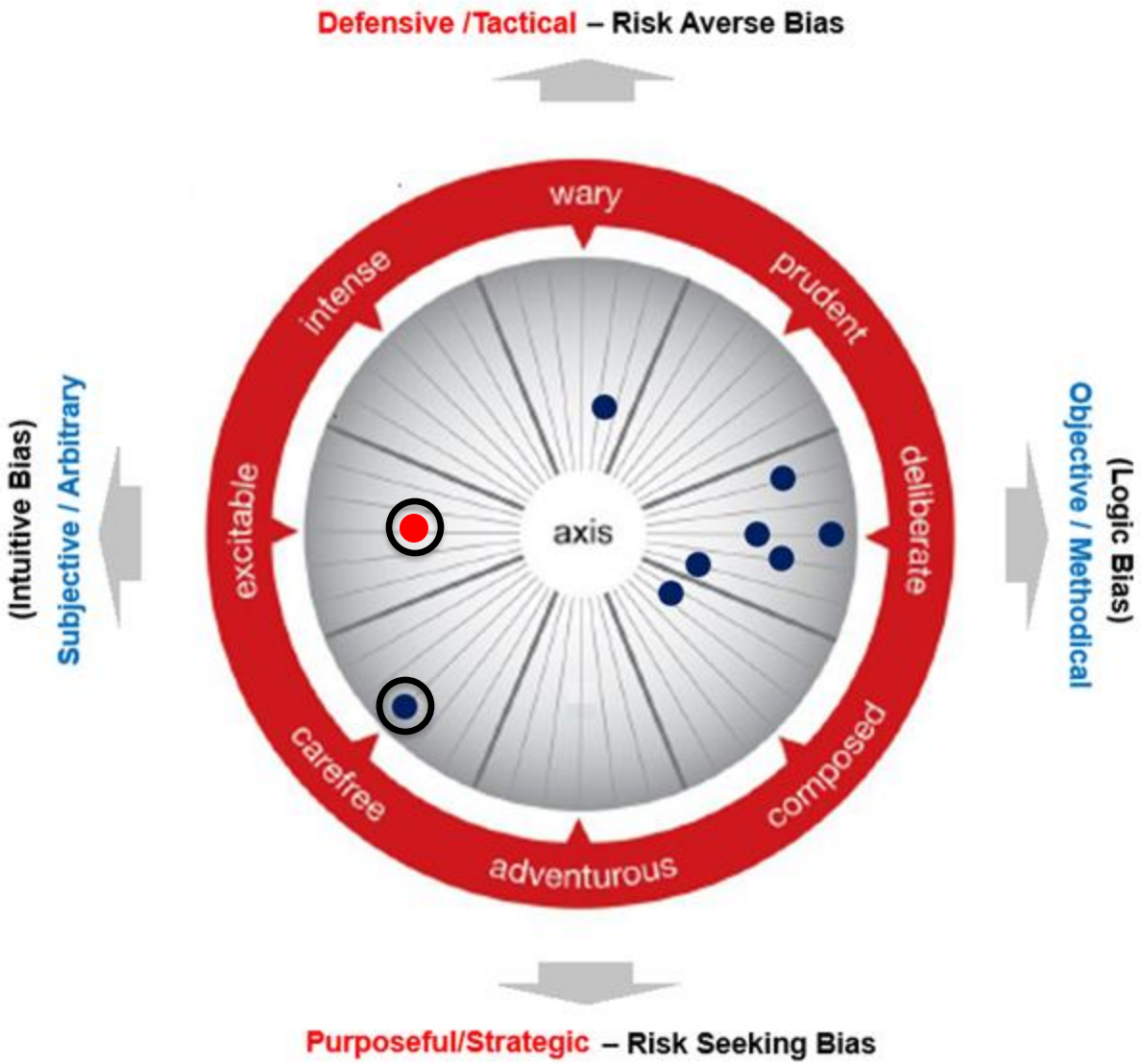
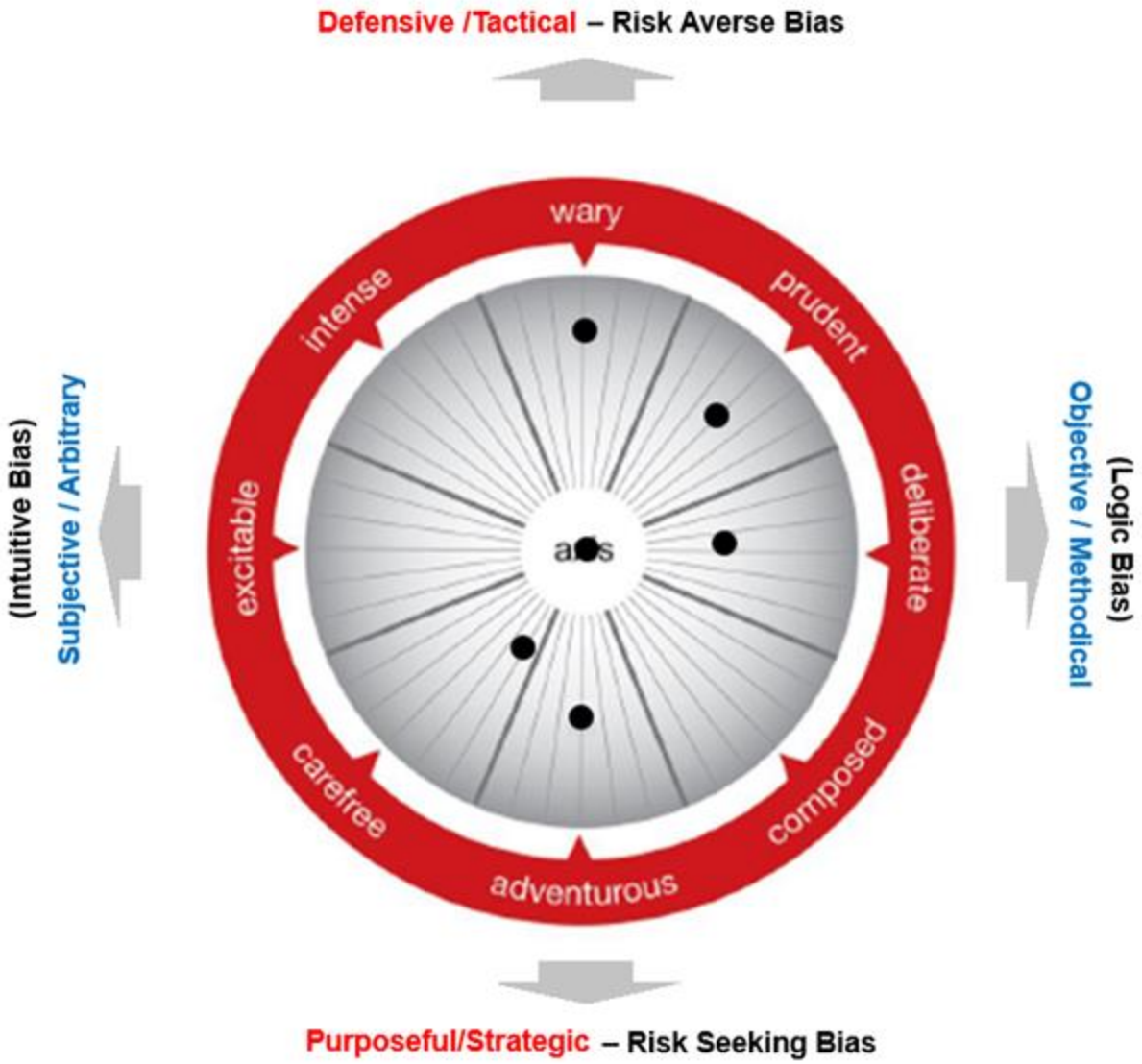


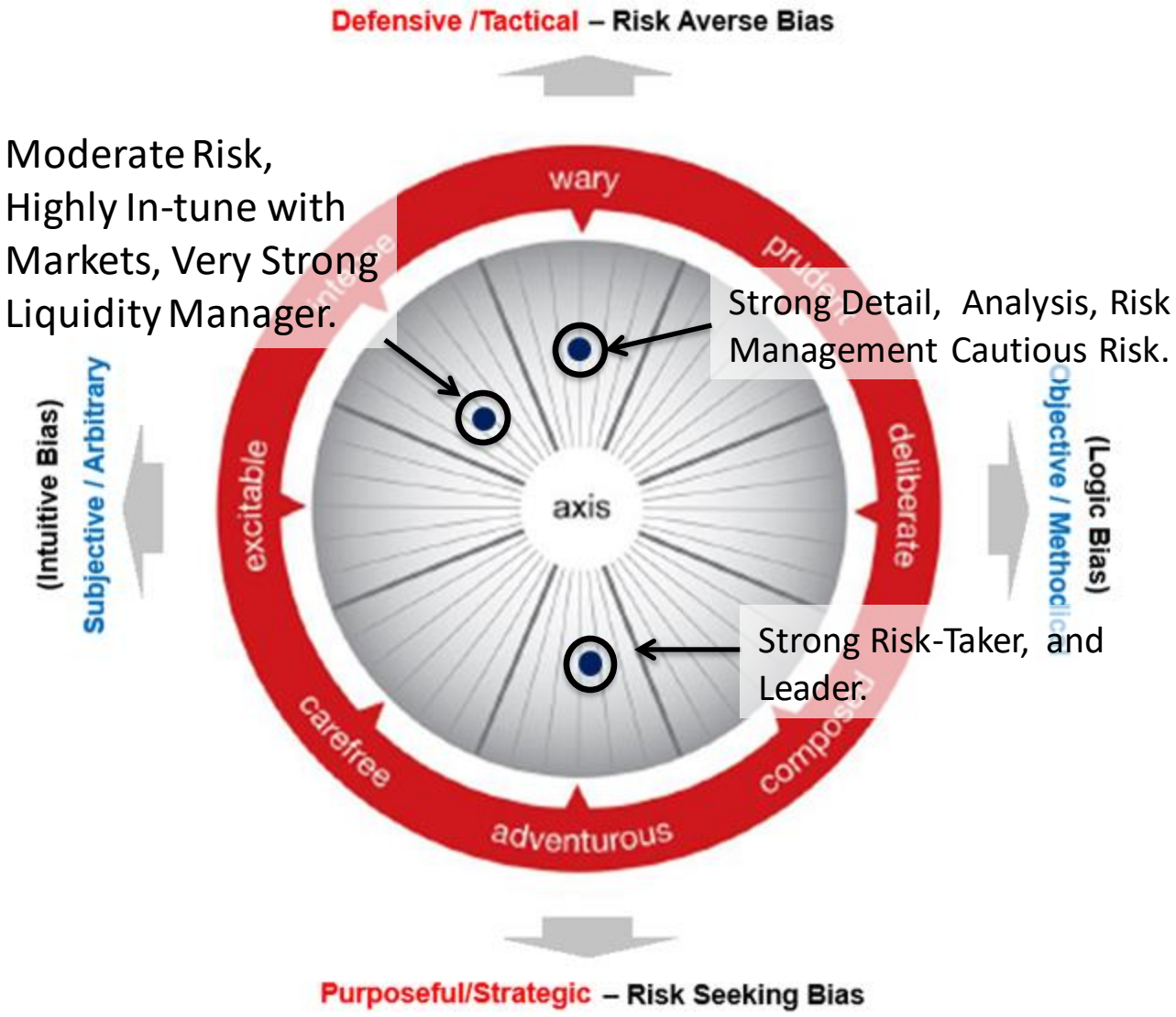
Using RTC for Team Risk Analysis.

High Performing Hedge Fund Team 2:



Using RTC for Team Risk Analysis.

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