

Going with Your Gut: Hedge Fund Managers Discover New Age Trading Techniques

By Susan L. Barreto, Senior Reporter

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NEW YORK (HedgeWorld.com)—In a room where trading screens blink and flash the latest market data, phones ring incessantly and more than one exasperated sigh is heard, a trendy trading technique calls for relaxation and paying attention to that “inner space.”

Flavia Cymbalista has made a business out of a concept she calls market focusing, which lets traders understand the wisdom that is inherent in one's gut feelings on a specific trade or portfolio decision. These feelings, she insists, are separate from the emotional distractions that can often place a portfolio in peril.

Working primarily with hedge fund managers, Ms. Cymbalista entices clients by revealing tricks of the trade used by George Soros, who is known to rely on a nagging backache to tell him when something is wrong with his portfolio.

“His body knows he needs to take action or to take careful note of a situation before his intellect can grasp it,” Ms. Cymbalista says.

Her firm MarketFocusing wants to help hedge funds tap into this “bodily” knowledge and learn to trust their instincts over black boxes and their guts over emotional reaction. She says she teaches traders how to develop their “biological software.” She's worked not only with George Soros but with author and derivatives expert Nassim Taleb and Linda Bradford-Raschke, one of the Market Wizards featured in Jack Schwager's latest book, “The New Market Wizards.”

Clients sign up for an initial set of three sessions that each last up to two hours. Each session is spent looking at one or more decisions that need to be made by the client. The decisions may range from a specific portfolio choice, a career determination or investor-related issue. She often deals with manager's fears of failure and other emotional trading problems.

One of her clients, for example, is a statistical arbitrage trader who uses quantitative, fundamental and technical analysis to make investment decisions. She often will set a specific time to speak with the trader over the phone or in person if needed.

“They have a lot of choices—the normal way of doing things isn't necessarily the best way,” Ms. Cymbalista said.

Combining Psychology and Uncertainty

Ms. Cymbalista developed her technique of market focusing after years of research and study beginning more than 10 years ago. In her doctoral work at the Berlin Free University, Germany, she was interested in market psychology, but noticed there wasn't a real theoretical framework to study the area fully. She soon discovered that the question of market psychology and uncertainty were the same.

“Uncertainty is that which escapes our models,” Ms. Cymbalista said.

She became intrigued with the intuition of the market speculator. She studied how speculators acquire their “gut feelings” and how they know how to separate emotional biases from specific trading ideas. Looking into what could be adaptable to a market situation, Ms. Cymbalista then sought a way to help traders with her findings.

In her research, she ran into the ideas of Eugene Gendlin. A University of Chicago professor for 30 years, Mr. Gendlin is well known in the psychology community for developing a concept called focusing.

Focusing is simply defined as a way of capturing an inward bodily attention that helps a person develop a sense of how an individual is in a particular life situation.

According to The Focusing Institute's web site, it occurs exactly at the interface of body and mind.

"The philosophy of it went well with my theory of markets and uncertainty," Ms. Cymbalista recalled. She then made contact with Mr. Gendlin, who now works at MarketFocusing with Ms. Cymbalista.

She asks traders to describe the emotional quality and how they feel that quality in their bodies when they are making a decision. Depending on the decision that feeling may be calming (a positive situation) or jumpy or blue if it's a bad decision. Each person's different in their ability to tap into what their bodies are saying.

Presenting her ideas to the academic and trading communities, Ms. Cymbalista wrote a paper, "How George Soros Knows What He Knows," that ultimately was sent to Mr. Soros who used her insights in the July 2003 edition of "The Alchemy of Finance."

Over the years, she's helped traders make hundreds of decisions. For some traders, the technique comes easier than to others, but often it can be difficult to separate real intuitions from a person's emotional reaction.

Ms. Cymbalista's goal is to teach hedge fund traders to take the steps to relax, clear a space, feel their body's internal gage and let the right decision come in a moment of sincere clarity.

"The more emotional reaction the situation is causing, the less reliable your gut feelings will be," she said.

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