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### George Soros: How He Knows What He Knows: Part 3: Empathizing with the Mind of the Market

by: *Flavia Cymbalista, Ph.D., with Desmond MacRae*

Try to understand the market from the inside to determine market moves.

Most approaches to trading emphasize the importance of a detached stance. Detachment, however, is far from the approach of George Soros. "As a money manager, I was emotionally engaged in managing my fund," Soros writes in the introduction to his newly revised edition of *The Alchemy of Finance*. "I managed it as if my existence depended on it, as it indeed did. I relied on my instincts and intuition as well as my conceptual framework to guide me through uncertainty."

In Part 1 of this series, "The Belief in Fallibility," (July SFO) I explained that Soros views the market as driven by investment hypotheses that are flawed. He finds profit opportunities where the prevailing bias creates self-reinforcing trends that reverse when the flaw becomes apparent. In Part 2, "Combining Theory and Instinct," (August/September SFO), I explained how Soros finds the flaw before it becomes apparent to the public. I introduced a methodology – "focusing" – that can teach you to use your bodily knowledge to manage your positions. This installment, "Empathizing with the Mind of the Market," explains how Soros intuitively detects situations where the prevailing bias gives rise to self-reinforcing trends. In *Soros on Soros*, he writes that these situations "send out signals that activate me."

In my paper "How George Soros Knows What He Knows" (available at [www.marketfocusing.com](http://www.marketfocusing.com)), the original source for this SFO series, I explained how Soros' use of intuition is akin to empathy. My insight found its way into Soros' new introduction to *The Alchemy*. He now uses the idea of empathy to describe what he is doing. "The process involves something very different from rational thought; it is better described as empathy," he writes. "The participant enters into the mind of the market and tries to understand it from the inside...I assumed that the market felt the same way as I did...and [I] could feel changes in its mood."

#### Body Signals Offer Traders Market Information

Soros is not alone in using his bodily reactions as sources of information about what's happening in the market. Many professional traders will tell you they can feel where the market is going. Market Wizard Linda Bradford Raschke, for example, has described what it feels like to have a "green light." "It's like wheels or gears spinning around, and I'm waiting for them to catch. I can feel them catch..."

How do Soros and other pros use intuition? How can they identify with the market's "feel" without getting carried away by the herd? How can they separate the market's bias from their own emotional reactions? And, finally, can any trader learn how to do this? This article explains how you can use "focusing" to empathize with the mind of the market, and offers exercises that teach you how to do it.

#### Your Biological Software

Empathy builds on emotional resonance, which is a biological ability. Babies, for example, will cry when they see another baby falling. When we are empathizing with another person, our bodies track what's happening inside the other person and mimic it.

Although most traders don't know how to turn it to their advantage, the capacity to track market sentiment and the patterns that it creates is instinctive. This capacity is a mechanism that allows us to handle complex and uncertain situations. When a trader resonates with the mind of the market, his physiology mimics market sentiment. For most traders, this results in getting

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carried away by the herd. To learn how to turn bodily reactions into sources of information, as Soros does, one must first learn how to listen.

### Listening

Most people are terrible listeners. Say your partner tells you about a situation he or she is currently facing. You respond with your opinion and your best advice. But your partner gets irritated and says, "You're not listening." Assume for a moment that you really don't know what your partner is saying. Many people can't. They jump to conclusions. They can't hear the whole situation without immediately giving it an already known or assumed meaning. Their biases interfere with what they actually hear.

Good listeners are naturally empathetic. They suspend judgment and immediate interpretation and, instead, build a sense of what they are hearing. This doesn't mean that they do not have their own sense of things, just that they can suspend it for a while so that they can absorb what they might not yet know.

### Being Puzzled

If you're truly empathizing, your biological software – your body – will resonate with the meaning of what you're hearing. Resonance comes before thought, interpretation or analysis. Assume that there is more to what you're hearing than you originally thought – even though you don't yet know what that "more" is. For now, that's a puzzle. At first, it's just an uncomfortable "nothing." Your body will construct a meaning that includes the situation as a whole, not only what you knew before, but also what you did not yet know.

Listening to the market requires the same capacity to suspend judgment and stay with a puzzling feeling. It's easier when you're not invested in the outcome. When traders are in a trade or thinking about putting one on, they project their biases into what they see. The first step in learning how to empathize with the mind of the market is to practice listening separately from decision-making. The exercises in Listening to the Market, show you how.

Doing this listening exercise regularly will quickly reduce your anxiety. If you tend to overtrade, you'll do less trading. If you tend to exit good trades too early, you'll find it easier to stay with them. You'll feel more in sync with the market even when you're not actually doing this exercise.

### From Hindsight to Foresight

If you have a position when you're doing this exercise, you'll begin to feel a kind of internal struggle, a push/pull when your intuition contradicts your interpretation of your model's signals. This tug of war is a "red light" which, for Soros, appears as a backache. Watch it carefully. Notice how it feels. Make a note of it to check when you review your trades to see if your intuition was "on" or "off."

For now, take this "red light" as a sign that you have to re-check your indicators. You're probably familiar with set-ups that turned out badly. There were warning signals that you overlooked and only found when reviewing your trades. Had you seen them in time, you'd have passed these trades. Paying attention to the "red light" will help you shift from hindsight to foresight.

With practice, you'll integrate your intuitive sense of the market with your set ups. To do that, you must be able to find a felt sense and to stay with this unclear sense long enough so that it can "open" into a whole field of intricately detailed information. This will take you beyond avoiding losses and will tell you when to reverse a trade, generate new strategies, and give you other market insights. But first, you must learn how to deal with the emotional biases that can mislead you when you're actually facing decisions.

### Gut Knowledge Versus Emotions

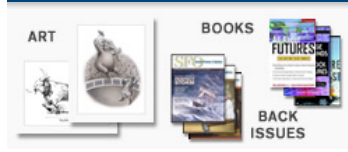
Most traders don't know how their bodily sense of the market situation differs from emotions. This bodily sense of the market is not itself an emotion. An emotion is often sharp and clearly felt, while the bodily sense is more complex and at first "murky." This bodily sense that contains subliminal knowledge is difficult to access because what we first feel is emotion. When we sense ourselves, emotions "spring out." We have to pass through them in order to access deeper layers of bodily knowledge.

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## SIDEBAR: Listening to the Market

This exercise will add a new dimension to your trading. Though it will appear duplicative of the basic focusing steps that were described last month in Part 2, it is used in another application – that of helping you make heads or tails of the market itself rather than last month's focus on thinking with your gut as regards trading positions. Frankly, the concepts bear being repeated so that eventually they can become automatic for the trader, no matter what he or she is considering.

It works best if, for each hour you spend in front of your screen/s, you take five minutes when you don't have to watch your positions carefully. Shift your mode of thinking from "What should I do next?" to being curious about "What's the market like right now?"

### **1. Clearing Space**

Take a moment to relax. If you're sitting in your usual spot, move your chair slightly. Now, turn your attention inwards – sense how it feels inside your stomach, your chest and your throat. Now, see what comes in this "inner space" when you tell yourself: "I'm perfectly at ease right now." This is almost never true. Something inside you will protest. So, ask: "What is between me and feeling perfectly at ease right now?" Make a list of the sources of unease you're feeling. Think of them as weights that you're carrying in your body and are putting down one by one. Acknowledge the unease each concern brings: "Yes, I know you're there," but don't engage emotionally with it. Just label it – "feed the cat," – "last month's losses," – "my chronic anxiety." You won't forget them. All you are asking for is a five-minute break so that you can give the market your full attention.

### **2. Letting the Felt Sense Form**

Now, look at the market action on your screen, and ask, "What does the market feel like right now?" Just watch the price action with interested curiosity, letting a felt sense form. Don't try to answer with your head. You must first give your body a chance to take in what's happening fully. Don't try to create a picture by putting together your indicators. What you're looking for is a felt sense of the whole action. At first, the felt sense will be unclear, but just let yourself feel it.

### **3. Finding a "Handle" for the Felt Sense**

What's the quality of this unclear felt sense? Let a word, a phrase, or an image come up from the felt sense itself. It might be a quality-word, like tight, sticky or heavy, or a phrase or an image. Stay with the quality of the felt sense until your handle fits it just right.

### **4. The Felt Sense and the Handle – How Do They Resonate?**

Go back and forth between the felt sense and your handle. Check how they resonate with each other and if there is a little body signal that lets you know there is a fit. You have to keep your attention on the felt sense while comparing it to the handle you've found. Often, the felt sense will change. If it does, change the handle until it feels just right in capturing the quality of the felt sense. Here's an example from a client: "It's kind of...a little...crazed. No, crazed is not the right term. It's more like frenzied, something is in motion...hmmm...and the quality of this motion is...top heavy!"

### **5. Asking**

Like my client, keep asking: "what's this quality like?" Make sure you sense the quality again and again, so that it's fresh, vivid, and not just remembered from before. When you have it again, tap it, touch it and be with it, asking: "what makes the whole thing so ... [insert your handle]?" What you're doing now is increasing your capacity to make distinctions to get more detail from your felt sense.

For example: "The top-heavy...yes, it's like a weight toppling...what's this top-heavy like? ... It's like putting the last straw on a camel's back...a house of cards." What are prices doing that is making this quality? "They're stalling out, turning...it's like throwing an apple in the air, it goes up and stays in the air a bit before it falls..." An answer should come with a shift, a slight release that will feel just like the relief at remembering a name you had forgotten.

## 6. Receiving – Let It Come!

Consider any answer that comes, even if it sounds totally absurd, or is a strange image, or makes you feel foolish. When a true answer comes, your body sense changes. If you still have time, go back to step two and do another round. Write down what you found, and go over it for the next hour to find out if the intuition from the previous hour was "on" or "off." When you have trades on, notice if it's more difficult to access your intuitive side.

At this stage, you're just practicing your capacity to listen to the market quietly. At first, your descriptions aren't likely to be very detailed. They might be something along the lines of: slow coiling, wants to push up, dripping down, heavy, quiet, winding up, creeping down, etc. With practice, your sense will become richer.

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### Confidence Biases

For traders, access to deeper layers of bodily knowledge is hindered by habitual responses triggered when a lack of certain knowledge makes them anxious. When we cannot tolerate uncertainty, we exhibit two basic tendencies. The first is denial. We are overconfident – and minimize the fact that we don't know for sure. The second tendency is withdrawal. In this case, traders remain aware of uncertainty as they, in fact, need to. But, this makes them afraid to act and prone to premature disengagement. Their confidence collapses. These confidence biases distort a trader's sense of a market situation. They prevent him from seeing the way in which the future might turn out differently from what he hopes or fears. They do not let him think beyond what he already knows.

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### SIDEBAR: Setting Yourself Outside the Process

We all have a pushy side and a cautious side, both of which we need. Without the pushy side, we'd never be able to pull the trigger; and without the cautious side, we'd never keep out of trouble. The problem for traders comes when they are taken over by one of them – when motivation to act degenerates into greed or when caution turns into fear. How can you avoid the tug of war that ends up in merging with one of the tendencies?

Getting to know these tendencies is the first step to neutralizing biased reactions. You may already know greed and fear very well, but you can't wish either away. Paradoxically, you need to engage their cooperation. You have to listen to them with empathy.

Start with one of them, let's say fear – though you could take the other tendency just as easily. Ask yourself what you are like when you're merged with this "sub-identity." Adopt an attitude of interested curiosity, as if you were a scientist observing the fear, trying to find out what it's like to experience it; what it feels like in your body. Notice how you can literally feel the pull backward (or the push forward) in your body. Then ask yourself: "What's it like?"

When a tendency shows up while you're trading, ask yourself if you can be friendly to this part of you. Acknowledge and welcome this part of you. Say "hello" to it, as if it were another person, an old friend. When you do, you've dis-identified with it. You are no longer "it." You are the interested observer who's looking at it.

If you do this with the right listening attitude, you'll see how this particular reaction loses its grip on you. At this point, the other tendency – greedy, impatient, overconfident – will show up on its own and step in. Take this other side and do the same. When you have learned to set yourself outside the process, you can feel both tendencies present at the same time without identifying with either. When you manage to feel both at once, the positive sides of the two tendencies start to work in tandem, as a team.

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### Tug of War

Normally, these opposing tendencies that push one forward and pull one back are present in any trader's psyche. It's as if each trader has an overconfident, greedy or hopeful "sub-identity" and a fearful one. The first feels energetic, without doubts and eager to act.

The second is apprehensive, scared to make decisions and worried about outcomes.

A biased participant is in the grip of either one of these tendencies. He alternatively identifies with one and dissociates from the other. There's an inner war going on – and the process is not under his control. He is pushed and pulled in different directions until one of the tendencies takes over and determines his decision. The way out is to set oneself outside of the process. The exercise in Setting Yourself Outside the Process will help you do that.

Many people need guidance before they can separate intuition from emotional biases fully. Like any learning process, you need to know what to pay attention to. If your ski instructor tells you inside the lodge how to perform a particular technique and you go out by yourself to do it, it's hard to know if you're applying the technique correctly or not. It's hard to make the necessary adjustments. Of course, there are many details and ways of overcoming difficulties, which can't be covered here. But, if you manage to feel both tendencies at once, you're on the right track! Instead of projecting your own fears and hopes into what you're sensing, you'll then truly be empathizing with the mind of the market.

The last article in this series, Part 4, (November SFO) will explain how to use Soros' theory of reflexivity in trading. You'll need your bodily sense for that – so, begin practicing!



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