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Editorial

Kann schon von einer Traumatisierung gesprochen werden, wenn Illusionen auf Gewinnmaximierung, die mit Investitionen am virtuellen Finanzmarkt einhergehen, plötzlich wie Seifenblasen zerplatzen? Welche unbewußten Motive auf Seiten der Investoren und der Investmentmanager an der Bildung solcher Illusionen mitwirken, beschreibt *Richard Taffler* in seinem Beitrag »Emotional Finance and the Psychodynamics of Markets« zu Beginn dieses Heftes. In einem nächsten Schritt will er (persönliche Mitteilung) mit Inhaltsanalysen, welche unbewußte Mitteilungen erfassen können, diese Thesen empirisch untermauern. *Mathias Hirsch* und *Hans Jürgen Wirth* klären in ihren Beiträgen: »Trauma und Konflikt – Freud und Ferenczi« und »Das Trauma der Geburt bei Ödipus und seine Bedeutung für die Psychoanalyse« die Entwicklung einer psychoanalytischen Traumatologie bei Freud, Ferenczi und Rank: von der Verführungstheorie, die Anerkennung eines realen von außen zugefügten sexuellen Traumas (früher Freud) über die Triebtheorie, der inneren, zentral ödipalen Konflikte zwischen den Instanzen Es, Ich und Über-Ich (Freud), zur Anerkennung des Geburtstraumas (Rank) und zur Anerkennung traumatisierender Einwirkungen innerhalb bedeutender Beziehungen (Ferenczi). Begriffe werden differenziert und geklärt wie zum Beispiel die Identifikation mit dem Aggressor bei A. Freud und Ferenczi: bei A. Freud ein Abwehrmechanismus zur Abwehr von Triebkonflikten, bei Ferenczi ein lebenswichtiger Bewältigungsversuch eines überwältigenden traumatisierenden Angriffs »eine Notmaßnahme, die das psychische Überleben ermöglichen soll« (Hirsch im vorl. Heft) mit dem Ergebnis: »daß bei allen psychischen Erkrankungen äußere, in irgendeiner Weise traumatisierende Lebensumstände mitverursachend wirken« (Wirth im vorl. Heft). Wirth beschreibt im Ansatz die mit der Freud-Rank-Kontroverse einhergehenden Spaltungsprozesse in der psychoanalytischen Bewegung, wobei deutlich wird, daß bei Freuds Ödipus Mythos »die frühe Traumatisierung des Ödipus völlig übersehen wurde« (ebd.). Hirsch zeigt, wie in der Freud-Ferenczi-Kontroverse der Unterschied zwischen Trauma und Konflikt sich an den »beiden Formen der Identifikation mit dem Aggressor« bei A. Freud und S. Ferenczi zeigen läßt und mit der Integration von Ferenczis Ansatz eine psychoanalytische Traumatologie entwickelt werden kann: »Denn während es bei Ferenczi um ein reales, überwältigendes Trauma von außen geht, beschreibt

Anna Freud die Abwehr einer befürchteten Strafe durch die Erwachsenen angesichts relativ geringfügiger Vergehen« (Hirsch im vorl. Heft).

Mit der Freud-Rank-Kontroverse befassen sich ausführlich *Robert Kramer* »I am boiling with rage ›Why did Freud banish Rank?‹« und *Ludwig Janus* »Die Freud-Rank-Kontroverse«. Die Unterscheidung der »Mutterleibsphantasie« (Freud) und der »Mutterleibsrealität« (Rank) habe nach Janus erhebliche Auswirkungen auf die psychotherapeutische Praxis und die Praxis der Geburtshilfe sowie für die Gesundheitspolitik. Beide analysieren die Ablehnung des Rank'schen Geburtstraumas durch Freud und deren Auswirkungen auf die gesamte psychoanalytische Bewegung sowie auf die Theorieentwicklung und die Behandlungstechnik.

Gerhard Schneider analysiert in seiner Filmbesprechung »Distanz und Unerreichbarkeit. Der traumatische Einbruch des Todes« den Umgang mit der Leere. In Nanni Morettis Film *Das Zimmer meines Sohnes* wird die Annäherung zwischen Vater und Sohn erst nach dessen Tod möglich, weil erst der Unfalltod des Sohnes eine »projektive Unerreichbarkeit« (Schneider im vorl. Heft) in deren Beziehung aufhebt. Dies hat in der Kulturzeitschrift *Lettre International* eine Kontroverse um das Ende der Psychoanalyse hervorgerufen, die Schneider damit abschließt, daß in Morettis Film der Vater als Analytiker scheitert und damit der Film auch eine These zur gegenwärtigen Psychoanalyse formuliere: »nicht aber die von deren Ende […], sondern die These vom Ende der paternalistischen Psychoanalyse« (ebd.).

In der Besprechung des Filmes von Thomas Vinterbergs: *Die Jagd* durch *Ilona Kuderer* und *Helmut Däuker* wird die zur Realität gewordene Phantasie eines sexuellen Mißbrauchs im Kindergarten, der fälschlicherweise einem Erzieher, Lucas, zur Last gelegt wird, thematisiert: Lucas wird zur Jagd freigegeben. Eine Männerfreundschaft, der Freund, der ihm glaubt, ermöglicht sein psychisches und physisches Überleben. Das Trauma in der Phantasie des Kindes wird zum Trauma des angeblichen Täters in der sozialen Realität und kann nur mit einer zugewandten Beziehung bewältigt werden.

Abschließend, rezensiert *Astrid Meyer-Schubert* das sehr lesenswerte Heft der Zeitschrift *psychosozial* mit dem Schwerpunkt: Die pränatale Dimension in der psychosomatischen Medizin, das von Ludwig Janus 2013 herausgegeben wurde und sehr aufschlußreiche Beiträge zur prä- und perinatalen Psychologie veröffentlicht. *Adrian Kind* beschreibt in seinen »Überlegungen zum Studium der Psychoanalyse« die Konfliktlage, der sich Studierende, die an dem Studium der Psychoanalyse interessiert sind, gegenübersehen.

Die Redaktion

Richard Taffler[1]

Emotional Finance and the Psychodynamics of Markets

Abstract: Little attention is paid in the finance literature to how people's unconscious fantasies, needs and desires help drive their investment decisions, and markets more generally. Some of the theory underpinning the new domain of emotional finance, which is informed by the psychoanalytic understanding of the human mind and group processes, is first outlined. This is then applied in helping explain asset pricing bubbles and the global financial crisis, as well as the paradox the asset management industry itself represents, all of which conventional finance theory finds difficulty in explaining in any convincing way. The paper concludes by suggesting that were we to recognise more formally the key role our inner world plays in the workings of financial markets, destructive and potentially pathological outcomes might be ameliorated.

Keywords: phantastic objects, states of mind, basic assumption groups, omnipotence, dot.com mania, global financial crisis

Introduction

Conventional finance views investors as »rational« and unbiased who act in self-interested ways to maximise their wealth. It assumes a world dominated by »homo economicus« and, as a consequence, markets are »efficient«. Such assumptions, however unrealistic, nonetheless allow the construction of satisfying theoretical models which facilitate the belief that the future can be explained so that the feelings of helplessness associated with the uncertainty inherent in all financial markets can be denied. More recently, the alternative paradigm of behavioural finance, which draws on the work of the cognitive psychologists, has led to major challenges to traditional finance theory. This recognises formally that investors are poor decision makers and very biased in the way they make judgments, being prone to such things as loss-aversion, overconfidence, confirmation bias, representativeness, familiarity, gambling

1 The author of this paper is a professor of finance who has experience of, but no formal training in, psychoanalysis.

and have problems of self-control (e.g., Shefrin, 2002). Nonetheless, the implicit assumption is still that by being aware of such mental processes economic rationality can be restored. Importantly for the purposes of this article neither financial perspective acknowledges the role unconscious fantasies, needs and desires play in all financial decisions, and the associated psychodynamics of markets as large groups.

This lack of understanding has led directly to the problems finance and economic theory have in explaining such events as price bubbles from Tulip Mania through to the present day, as well as major economic crises; quite apart from many aspects of what goes on in financial markets more generally. Emotional finance, on the other hand, formally recognises how the inability to predict investment outcomes unleashes powerful unconscious emotions of excitement, anxiety and denial. In particular, it draws on psychoanalytic theory to help describe how unconscious processes play a key role in all financial decision-making, and to enhance our understanding of investor and market behaviour not well explained by existing paradigms. Emotional finance recognises that markets constitute large virtual groups and thus sees their behaviour as analysable in terms of group psychodynamics.

The paper first describes some of the underlying theory of emotional finance. The emotionally-driven nature of financial bubbles and crises is next explored. These two sections are then used to help explain dot.com mania, which, interestingly, many economists still argue was in fact »rational«, and then briefly the much larger and more recent Chinese stock market bubble. The following section illustrates how the ongoing global financial crisis was, at root, driven by unconscious forces which have been ignored to date in the myriad attempts to make some sense of it, and provides a much richer understanding of its underlying pathology.

The final part of this paper then describes the apparent paradox the existence of the very large and profitable investment management industry represents. Finance theory is unable to explain why investors don't behave in a rational manner and simply buy low cost passive index funds that track the DAX (Deutscher Aktienindex) or S&P 500, for example. Instead they prefer to invest in relatively expensive actively managed mutual funds whose managers select the stocks to invest in and which, on average, earn their investors significantly lower returns than do index funds. Emotional finance is able to explain this enigma by explicitly recognising the important role mutual fund managers play in facilitating people's saving and investment activity by overcoming their underlying anxiety, and the »real« (unconscious) needs that the industry is, in fact, meeting.

The paper concludes that the key role unconscious fantasy and group processes play in investment should be formally acknowledged if we want to understand what really goes on in financial markets.

Emotional finance theory

Emotion and unconscious psychic processes are central in the way people deal with the world. Nonetheless, the role people's unconscious needs, fantasies and drives might play in their financial decisions, is conventionally ignored by financial researchers. The nearest they get to this is in the field of behavioural finance which draws on cognitive psychology to help explain financial judgements which are not »rational«. However, although cognitive psychologists also acknowledge that most judgment and decision making is automatic and intuitive rather than reasoned (e.g., Kahneman's Systems 1 and 2 [Kahneman, 2011]), the role unconscious emotions play in decision making is almost completely ignored. For example, the word »unconscious« appears only once in both of Daniel Kahneman's two articles based on his 2002 Nobel Prize in Economics lecture (Kahneman, 2003a, 2003b), and then only in a referenced book title.

Investment market outcomes are inherently unpredictable and such uncertainty leads to emotional responses of both a neurological and psychological nature. Emotional finance directly explores how unconscious processes help drive investor and market behaviour. The important role »wish-fulfilment« and »illusion« play in investment is explicitly recognised. An important form of illusion very prevalent in all financial activity, as we will see, is the combination of knowing and not knowing, i.e., »turning a blind eye« (Steiner, 1985) to what is going on, when market participants have access to reality but choose to ignore it because it is »convenient« so to do (Kirsner, 2012). Investors unconsciously »feel« what they want to be true, rather than what actually »is«. »Psychic reality« is very different to the actual »facts« of the matter, with which finance traditionally seeks to deal.

Ambivalence and unconscious conflict

Freud (1911) views thoughts created by feelings as ultimately being of two types: »pleasurable« (exciting) or »unpleasurable« (painful, anxiety generating, or loss provoking). Mental functioning reflects the outcome of an ongoing and never fully resolved struggle between the »pleasure principle« and the »reality principle«, the capacity to sense reality as it really is, however painful, rather than how people might wish it to be. As Freud (1908, p. 144) points out: »But whosoever understands the human mind knows that hardly anything is harder for a man than to give up a pleasure which he has once experienced.«

Investment decisions create feelings of both »excitement« (the pleasure of imagined future gain) and »anxiety« (the pain or unpleasure of potential future loss), the prototypical emotion in investor behaviour (Tuckett & Taffler, 2012). The process of investing means that the investor enters into an emotional attachment, whether conscious or not, with something, a stock or other asset, which can lead to both gain and pain. The investor becomes dependent on its future price, something which is inherently uncertain. There is the wish and hope the stock will go up, which is pleasurable or exciting, but on the other hand it can very easily let the investor down, the thought of which is unpleasurable and anxiety-generating. Importantly, since both pleasurable and unpleasurable feelings are generated at the same time, this leads to subjectively painful emotional conflict or »ambivalence«. For example, professional investors are very aware of the danger of falling in love and idealising a stock or company management which can then do no wrong, which feelings then turn to anger and disgust when they do not perform as expected (Tuckett & Taffler, 2012).

Investment thus provokes highly charged emotions and associated emotional conflict. Such unconscious conflict is dealt with typically by evacuating the potentially unpleasurable thoughts from conscious awareness leaving only the good ones, typically through processes of »splitting«, »repression«, »idealisation«, »projection« and, crucially, »denial«. In this way emotional conflict or ambivalence is sidestepped and avoided.

Phantastic objects

Klein (1936) views the whole of an individual's psychic life as dominated by phantasies originating in the earliest stages of emotional development: »[I]nfantile feelings and phantasies leave, as it were, their imprints on the mind, imprints that do not fade away but get stored up, remain active, and exert a continuous and powerful influence on the emotional and intellectual life of the individual« (p. 290). Financial markets provide a perfect playground in which infantile phantasies can be easily acted out. Wish-fulfilling phantasies of enormous wealth and omnipotence are implicitly, and even often explicitly, encouraged by the investment industry.

Emotional finance incorporates the role of excitement directly in the study of investor and market behaviour by recognising that any investment can have an exceptionally exciting and transformational meaning in psychic reality with the associated idealisation leading to the desire to possess. An important contribution is to recognise the role the »phantastic object« plays in all investment activity with the term derived from the Freudian concept of »object« and Klein's understanding of »phantasy«. The term is used to describe the unconscious mental representation of something (or an idea) that fulfils the individual's deepest (and earliest) desires to have exactly what they want exactly when they want it. Possession of such phantastic objects allows investors unconsciously to feel omnipotent, like Aladdin whose lamp could summon the genie, or the fictional bond trader, Sherman McCoy, in *The Bonfire of the*

Vanities (Wolfe, 1987) who felt himself to be a master of the universe (Tuckett & Taffler, 2008). As Tuckett and Taffler (2008, p. 396) point out, phantastic objects are exciting and transformational, »they appear to break the usual rules of life and turn aspects of ›normal‹ reality on its head«.

The power and seductiveness of the phantastic object is well demonstrated by Bernie Madoff's $65 billion fraudulent investment scheme which was able to exploit his investors' unconscious search for wish-fulfilling investment fantasy: annual returns of 8–12 per cent with no risk seemingly forever. With Madoff being described as »the miracle worker«, investors and regulators, including the Securities and Exchange Commission, continuously turned a blind eye ignoring any challenges to the enormously satisfying phantasy of the omnipotent fund manager who was able to turn reality on its head (e.g., Markopolos & Casey, 2010). Not surprisingly, violent outbursts of anger, hatred and blame followed Madoff's downfall in 2008 and he was given a symbolic 150 year prison sentence. However, on one level, this may also reflect the unconscious recognition of how people had been caught up willingly in pursuit of the enormously satisfying phantastic object Madoff represented leading directly to the enormous and very painful losses they suffered.

The idea of the phantastic object originated in trying to understand the powerful unconscious attraction of investors to dot.com stocks during dot.com mania (Tuckett & Taffler, 2008). However, emotional finance theory suggests that in the investor's unconscious all investments have the potential to become phantastic objects, even in normal market conditions and day-to-day trading activity, provoking extreme emotions with love turning to hate and anger when they do not perform as expected.

In fact, such an awareness of the unconscious and excited ambivalent object relationships we enter into with our investments can be very helpful in understanding investor behaviour in a more complete way.

Judgments and states of mind

As in all psychic life ambivalence is at the heart of investment activity leading inevitably to mental conflict of which investors are usually unaware. Klein (1935) describes and compares the »paranoid-schizoid« position and the »depressive« position. Bion (1970) elevates Klein's account to his PS and D states of mind viewing the oscillating relationship between them, PS↔D, as a way of dealing with the ambivalence at the heart of psychic life.

Investment decisions can be made in a more or less D state of mind – stocks can have both good and bad characteristics, they can go up, and also go down, ambivalence is recognised and uncertainty accepted, i.e., in a state of reality. Or in a PS state of mind, by avoiding, ignoring or rationalising away any feelings that might cause mental pain so to be left with only the pleasurable, i.e., in unreality. Everything is in a sense black or white; there is no uncertainty. Good and bad feelings are split with the latter repressed and projected on to others. In investment, there is constant tension between judgments grounded in reality (made in a D state of mind), and those made in a PS state of mind dominated by phantasy. Here the direction is only one way, and that is up!

Group dynamics and financial markets

Emotional finance views markets as large (virtual) groups with behaviour reflecting the interaction of the often unconscious drives, needs, emotions and phantasies of their participants as they deal with the inherent ambivalence and uncertainty of the investment process. Bion (1961) emphasises that groups do not require their members to be in the same room. Financial markets are made up of tens of thousands of individuals at any moment all interacting directly and indirectly with each other on different levels and in different ways whether electronically, via their trading activities, socially or institutionally. Like all other groups, markets take on a dynamic unconscious »emotional« life of their own which commentators often implicitly recognise by viewing the famous eponymous investor Benjamin Graham's Mr. Market in an anthropomorphic way as being prone to such human emotions as panic, euphoria and mania, and frequently being »irrational«. Finance theory itself, when it seeks to explain the paradoxical collective behaviour of market participants, uses the label »herding« but typically without seeking to explore the underlying group processes at work. In contrast, emotional finance does not need to postulate the existence of a herd instinct (Bion, 1961, p. 153) but views markets as amenable to analysis drawing on the psychoanalytic understanding of unconscious group dynamics.

Bion (1952, 1961) views group mental activity in terms of two principal group processes, »work group« and »basic assumption group«, which behave in very different ways. In a work group its members co-operate together creatively to a common end using information appropriately, both positive and negative, in this task. On the other hand, »Work group activity is obstructed, diverted, and occasionally assisted by certain other mental activities that have in common the attribute of powerful emotional drives [… which] spring from basic assumptions common to all the group« (Bion, 1961, p. 235). When basic assumption group processes take over, the unthinking purpose of the group now becomes that of providing good (i. e., pleasurable) feelings to its members through the unconscious defences the group as a whole adopts against anxiety, rather than through reality-based thought and working together for a common purpose. In this case the group doesn't consider the actual facts. Information is employed to promote comfort and excitement in a PS state of mind with the negative aspects denied and split off. Any potential adverse consequences are lost sight of and »unconscious wishful thinking« dominates. Such processes are often observed in financial markets and the finance industry itself. Anyone who might think differently and question the group's underlying *raison d'être* risks being ostracised to avoid the group having to acknowledge what they would rather not know. Bion (1961, p. 162), in fact, points out: »I know of no experience that demonstrates more clearly [… the existence of basic assumption group behaviour than] the dread with which a questioning attitude is regarded.« People in a basic assumption group (whether actual or virtual) want to agree, face the world together, and be looked after; anything that might challenge such pleasurable feelings is strongly defended against.

Bion adumbrates three different basic assumption groups, »dependency«, »pairing« and »fight-flight« which all have their correlates in financial markets; »anger, fear, hate, love, all […] exist in each basic assumption group« (ibid., p. 166).

> »All basic assumption groups include the existence of a leader, although in the pairing group […] the leader is ›non-existent‹, i.e., unborn. [… The leader] need not be a person at all but may be identified with an idea or an inanimate object« (ibid., p. 155).

In the regressive process of dependency, the dependent leader is required to nourish, look after and provide security for all group members (like a good father) so they do not have to think for themselves. The way in which investors projected their need for such omnipotent phantasy onto the legendry Chairman of the Federal Reserve Bank, Alan Greenspan, whose prognostications were treated as those of an omniscient guru before the global financial crisis, may be remarked on in this context. This was despite their well-documented obfuscation akin to that found in many religious texts. Such basic assumption group behaviour is also manifest, for example, in the common and unreflective faith in an omniscient and omnipotent market which requires no regulation and to which all financial decisions are best delegated to rule upon.

In the pairing basic assumption group the feeling of hope is key based on the collective phantasy of a notional pairing producing a messiah, although he can never be born. Bion (1961, p. 151) comments: »[T]he feeling of hope itself […] is characteristic of the pairing group and must be taken by itself as evidence the pairing group is in existence, even when other evidence appears to be lacking.« The key role unconscious wishful thinking or hope of a never to be realised investment jackpot plays in all investment activity is a clear manifestation of pairing basic assumption group behaviour.

In the case of the flight-flight basic assumption group, the objective is group self-preservation either through attack or fleeing; it doesn't seem to matter which. Anger, fear and panic are salient aspects of such group processes which are played out in markets not just in the case of market pricing bubbles but, more generally.

Belief in the existence of the phantastic object often dominates in basic assumption thinking in financial markets as will be illustrated below. The next section of the paper explores the relevance of emotional finance theory to real-world capital markets.

Bubbles and financial crises: an emotional finance perspective

Traditional financial and economic theories find great difficulty in explaining such things as stock market and property bubbles and financial crises in any convincing way (for summaries of attempts see e.g., Brunnermeier & Oehnike, 2013; Scherbina, 2013). Even the definition of what a bubble is cannot be agreed upon and there is a continuing debate as to whether if they actually exist they are »rational« or »irrational« (e.g., O'Hara, 2008). Many economists, in fact, make strenuous efforts to deny bubbles exist despite clear evidence to the contrary. A good example is the attempt by Peter Garber, a professor of economics, in his book *Famous First Bubbles: The Fundamentals of Early Mania* (2001) to show that such seminal historic bubbles as Dutch Tulip Mania (1636–1637), The South Sea Bubble (1720) and the Mississippi Land Speculation (1719–1720) were not bubbles but had an underlying economic rationale. Even the 2013 Nobel Laureate in Economics, Eugene Fama, used his award address to argue against the existence of asset pricing bubbles (Fama, 2014) and that market »efficiency« was not violated. In traditional economic and finance theory bubbles should not occur!

Economic models that attempt to explain pricing bubbles, usually of a highly mathematical nature, revolve around ideas of herding, informational cascades (in which people copy what they see others doing assuming they know something they don't) and the »greater fool« theory (where investors »know« they are in a bubble but believe they can sell on to others at a profit before it bursts) (see e.g., Hirshleifer & Teoh, 2003). The roles played by unconscious emotions and social and group processes (e.g., Shiller, 2014) are largely ignored. Because of the failure of conventional economic and financial theories to explain such major events at all plausibly, there is even a tendency among some economists to see these as unavoidable implying trying to understand their causes makes little sense (Shulman, 2014).

Accounts of what actually happen in financial crises and asset pricing bubbles (e.g., Mackay, 1995 [1852]; Galbraith, 1993; Cassidy, 2002; Tuckett & Taffler, 2008; Kindelberger & Aliber, 2011) are first and foremost descriptions of highly emotional speculative processes. Terms such as excited, euphoric,