

CHAPTER 1

The Nature of Stress

What Is Stress and Why Is It a Problem?

Walter was a 28-year-old bond trader who was working a block away from the World Trade Center when disaster struck in 2001. His office building was successfully evacuated. Yet when the financial markets resumed operations, he struggled to return to the winning ways he had enjoyed in his relatively short career up to that time. He attributed the downturn in his performance mostly to the downturn in the economy but felt his excitement about his work diminishing.

Then one afternoon, about a year after 9/11, his heart began thumping wildly and he suffered chest pains. Fearing a heart attack, associates called an ambulance, and Walter was rushed to a hospital where cardiologists performed tests for hours before concluding that the episode was nothing more than a case of stress and acid reflux. Walter took small comfort in this. For weeks, he felt tightness in his chest every time he took a big position in the market. He lost all interest in his profession and went into what he thought was a profound depression. He left his job and believed that his life was spiraling downward.

In outlining his troubles, Walter convinced me that before 9/11 he had enjoyed a healthy appetite for the risks and stress that financial work entailed. He had taken some positions that proved unwise but had accepted them in stride. I sensed that the “heart attack” incident was a major symptom of the anxiety that had gripped him in the wake of the terrorist attack. Then all of a sudden it appeared: Walter could no longer tolerate risk. When I suggested this to him, he argued heatedly at first that he had not changed but was simply going through a “bad patch.”

Sometime later, however, Walter read an article about a survey showing how hundreds of people in the downtown New York financial community were exhibiting similar feelings. As we started to talk, his voice began to quaver and tears streaked down his cheeks. "It's true!" he said. "I could be one of the people in this survey. I've felt out of control since the moment the markets reopened after 9/11." As Walter calmed down, he began opening up about all the anxious moments he had endured for so many months. The first phase of his recuperation was under way.

Stress. We all experience it. We hardly need a definition for it. Everyone knows what stress is, because everyone has been exposed to some form of it. Even children, who don't necessarily know the name for it, have felt its symptoms—knots in the stomach, nausea, a throbbing headache, a racing heart, sweaty palms, knocking knees.

If stress is unavoidable in everyday life, it is even more so in the hectic, fast-paced world of trading—where millions and millions of dollars are on the line with every decision. Therefore, it is imperative that traders learn how to deal with stress. Notice I said “deal with,” not “eliminate.”

In fact, when you learn to understand the bodily sensations related to stress, you can also discover how to step outside yourself and begin to learn how to control those sensations. The problem is less *what* you are feeling than *how* you are interpreting these feelings and reacting to them. Anger, anxiety, and excitement differ from each other only in the *interpretation* of the physical experience—how you choose to handle that experience. Recognizing the automatic response to real or imagined danger, you will be able to experience your feelings in a more hopeful way without reacting to them as if something were wrong.

THE FIGHT-OR-FLIGHT ALARM

The body's response to stress is meant to be adaptive, helping you to cope with dangerous situations. It prepares you for fight—stand your ground—or flight—flee the situation—by increasing blood flow to the muscles, increasing heart rate and breathing rate, emptying the stomach and gastrointestinal tract of blood, and heightening your senses.

When you become anxious or fearful, your body's physiological reaction is to pump adrenaline into the bloodstream. This is your body's natural or automatic response to danger, novel stimuli, or symbolic risks. Your heart rate increases, and you may experience palpitations. Your breathing will speed up, and it may be difficult to catch your breath. You may start huffing and puffing as if you had exerted yourself. Dizziness,

lightheadedness, difficulty swallowing, and butterflies in your stomach are also common accompaniments of the adrenaline response.

While Walter, the trader profiled at the beginning of this chapter, experienced a truly life-threatening trauma on 9/11, these same symptoms often burst forth in the fast-paced world of trading. They might be a response to the stresses of business or to memories of past trading experiences, not to actual danger. Regardless, your body reacts the same. It becomes overloaded. Your capacity to cope effectively is significantly reduced by the overreaction of your nervous system. You expend excess energy to reduce these reactions or to hide or control them. And if you don't recognize that this is happening and don't attempt to deal with these responses, you are likely to become overwhelmed.

Of course, it is natural to want to be in control. So, you react by trying to hide or reject these feelings or, in another control attempt, you may tighten or tense up your body even more. But it doesn't work. The adrenaline keeps on pumping. As you deny your responses instead of owning them or letting them pass, your stress level tends to increase rather than decrease. Your anxiety escalates. Rather than recognize and heed your body's signals by slowing down, resting, relaxing, and regrouping so that you can accurately assess and handle the reality before you, you are caught between the escalation of symptoms that you cannot deny and your need to stay in control.

The more panicky you feel, the less willing you are to let go and allow yourself to experience the feelings. Under this increasing amount of stress, it becomes impossible or near impossible for you to relax and to allow the waves of adrenaline to course naturally through your body. Rather than going with the flow, you are likely to identify the anxiety with the origin of the stress and then assiduously learn to avoid that activity or awakening that memory. Then, your anxiety-reducing rituals or compulsions become even more debilitating than the original anxiety.

This happens especially when someone has been losing money and is in negative profit and loss (P&L) territory. The tendency for some is to blame the risk manager or management rather than face up to the difficulties that they have been having with their trading. So denial of responsibility and projection of blame onto others sometimes shows up in this context.

Let me use the real-life experience of a trader named Stuart. He has been frustrated because he doesn't think there is a good fit between his trading style—a long-term company-specific, intensive, fundamentals-driven approach to investment—and the shorter-term model that his firm prefers. He is particularly upset because he has to deal on a regular basis with a risk manager who he believes doesn't understand financial investment. He also feels that the risk manager doesn't appreciate how well he

has done and that he has complied with the drawdown limits of his contract by staying fixed at 5 percent down.

As you will see in the discussion that follows, this trader has started to understand that his feelings are no more than an alarm reaction coupled with an interpretation of danger and a fear of losing control. The same applies to you if you are in a similar situation. Once you can see that there is a sequence of responses to events, you can observe events *without* reacting to them. Only then will you begin to isolate your interpretation from the event itself.

Case Study: Stress and Panic Reaction

In this dialogue, the trader describes how the fight-or-flight response has led him to make spur-of-the-moment decisions out of reactivity. He has learned that by organizing a plan, documenting his experiences, and taking a few moments before decision making, he can help overcome the stressful symptoms that often lead to panic and bad decisions.

Stuart: Stress leads you to do more work and to make sure that your ideas are that much stronger. I think this is definitely a high-stress job.

Kiev: Sometimes stress is good because it forces you to confront your feelings.

S: It keeps you excited and driven to find that extra data point or to come up with that new idea.

K: What about panic? Have you ever been a situation where you were panicking?

S: There have been situations where stocks have blown up and we are long or short, and it goes against us. Your first reaction can sometimes be the wrong one. Sometimes you need to sit back and say, "If the stock is opening up at five dollars, maybe everyone is feeling the same way that we are." They are scared that they are short and all of a sudden there is good news and the stock is being lifted up. You may want to sit back and say, "Let's not do anything until we figure out what the numbers are. Let's talk to the companies." Is it really justified that the stock is down 15 percent, or should it be down only 7 percent? You may want to wait it out and try to evaluate it from there.

K: Sometimes the panic is worse.

S: Sometimes you can't decide what to do. Then it's a frenzy, and you get out, and all of a sudden the stock has come down and it goes back to flat on the day.

K: Over time, have you have learned to ride out these emotions?

- S:** You learn to deal with the stress and the anxiety. One of the problems that I had when I first got here was just a lack of experience. There would be a terror alert, and the market would start selling off. We would be like “Oh, there is a terror alert!” We would start shorting, and then all of a sudden we’d learn that the terror alert was false. The stocks came ripping back and we were left wondering what to do: “Do I cover the shorts that I just put on?” I went from shorting them on the fear to feeling “Okay, when everyone is panicking, buy the dip.” Over time you become more comfortable. Now I have a plan, and I deal with the situations instead of panicking.
- K:** Is panic the worst kind of psychological experience?
- S:** Absolutely! You feel like you have no control in that situation.

DIFFERENCES IN STRESS RESPONSES

While all traders experience the kinds of stress that you do, it is also important to note that not everyone reacts to stress in the same way. Although the fight-or-flight process is biologically the same, not everyone experiences the *same* symptoms or the same *intensity* of stress-related symptoms.

Consider the following stock analysts whom I recently spoke to. Seymour was frustrated about what he described as the “condescending” attitude of Michael, the senior analyst, toward him. He felt Michael was more concerned about being right than just making money. I suggested that he look more closely at himself and his own attitude and see what he could do to improve his performance and contribute the most that he could without taking Michael’s criticism personally. In particular, I suggested that he talk to Michael about improving communication and trying to raise the level of the game. He could establish a set of criteria with Michael so that he could provide more of what Michael was looking for. Thus they would both move toward being on the same page and create a better team approach.

Meanwhile, another analyst, Gilbert, was becoming anxious about being responsible for close to \$500 million of positions. He decided to cut back and reduce his level of anxiety. I agreed that this was a good strategy. My suggestion was that he stretch, and when the stretch becomes too uncomfortable, pull back and preserve capital. Then do the work and build up the positions again.

A different trader, Tad, was going through a bad patch. He was down about \$4 million for the year; \$6 million is his “down and out” (the amount of loss that triggers the shutting down of a portfolio). As he debated whether to start trading again, I suggested that if he could, he should start

small when he has a high-conviction idea, and that he pay close attention to the risk/reward and stop-out levels of the trades. I also suggested he monitor some of his emotional responses and psychological concerns by keeping a diary. He had done this a year earlier and got a lot of benefit from it.

Tad was a member of Dave's team. He was having some problems dealing with Dave's emotionality when things weren't going well for him. When I spoke to him about this, I found out that Dave was very much like Tad's own father, suggesting a reason why Tad has been drawn to Dave. In psychological terms, Tad reexperiences something familiar in both the good sense and the bad sense. He re-creates some of his earlier psychological experiences by way of trying to master his response to them. On some level this is working, and he is getting some greater awareness about his own predilections.

These situations raise a number of questions: Are some people more prone to develop stress-related symptoms? Are there any personality characteristics that make it harder for some people to cope with stress? Can stress be completely avoided? If not, can you learn how to tolerate stress more effectively? Can stress be beneficial to any degree?

Many psychological disorders involving stress have been proven to have biological underpinnings. So, there are biological components connected to the way in which you handle stress. However, while anyone can experience stress and there are no specific personality traits that predispose people to it, there do seem to be certain personality characteristics that make it especially difficult to let go of the symptoms of stress once they develop. A trader may not have all of these characteristics, but it is useful to understand them as additional variables that may make it difficult to handle stress. They mark you as a prime candidate for anxiety, and contribute to the way in which you handle stress.

Let me offer an analogy that those of you who are parents have probably observed or that apply to your own childhood. Some babies are calm and even unresponsive to noise or environmental stimuli. They sleep through loud music, fire engines, or ambulances and seem unflappable. Other babies seem predisposed to anxiety. They are hyperalert and respond to the slightest stirring in their environment. From birth they may seem hyperactive and fine-tuned to the most subtle nuances of reaction in their parents and siblings. This sensitivity often continues throughout the rest of their lives. The positive side is that extreme sensitivity is often expressed in artistic perception in later life. The negative side is a tendency to overreact to environmental stimuli such that you become excessively alert to the stimuli around you and prone to react to them. A person who has been more sensitive to stimuli, therefore, would understandably have a harder time dealing with stress, especially extremely stressful situations.

While everyone is exposed to some form of stress in their lifetimes, if you have been traumatized as a child you may have already developed a set of defensive reactions that can influence the way you respond to stress. These defense mechanisms may make you more vulnerable to the development of certain symptoms.

As a result of chaos in the home, whether in the form of physical abuse, sexual molestation, conflict, suppression, or ridicule, you may have learned an adaptive style or social persona designed to protect you from stress. At the same time, your creative self may have been suppressed or stifled. You may have withdrawn from reality such that you are not flexible or able to learn from your past experiences. Perhaps you are out of touch with your true or hidden potential and thus not able to be fulfilled in the course of your trading career. Your sense of self-esteem may be low, and you may function in the world with a sense that you must keep hiding your secret self. You may feel a sense of guilt, inadequacy, and shame, which you try to mask with your efforts to perform better.

An additional experience of childhood, which may make for greater sensitivity to stress or at least put you at greater risk for the kinds of symptoms experienced with stress, is a fear of abandonment. If you were neglected, rejected, or abandoned as a child, or even if you were left alone for what seemed to you to be an extraordinary amount of time, you may be extra sensitive to stressful events, which in turn disturb your sense of stability and universal order. When such events occur, they may spark the underlying fear of abandonment and dissolution of self. For traders, who work with very random and unpredictable markets, the lack of anchoring here can be especially disconcerting.

In part, what makes stressful events so traumatic is that they have the force of igniting these primordial fears of childhood. Exposed to a stressful event, you are overwhelmed by a massive emotional and physiological emergency. Such a reaction is like a flash flood that temporarily swamps your psyche and renders all of your prior adaptive skills inoperable. Your belief systems become ineffective for coping, and you feel as if you are drowning in the fear and panic associated with a sense of impending doom. Following the initial shock, you become intensely sensitized to subsequent events and are then likely to engage in a variety of defensive maneuvers designed to reduce the intensity of the pain. These patterns may become self-perpetuating and may keep the fear alive.

PERSONALITY FACTORS

A predilection for control and perfectionism increases the chances that you will have difficulty handling stress, particularly when you discover that you

cannot control the sources of it. This was the case with Albert, a very bright analyst who had difficulty not being in control of the many facets of the job in which he was engaged. After being a bit stressed out for several weeks, Albert made a conscious effort to stay focused, to spend fewer nights out on the town, and to take some time off and prepare for the end of the year. It paid off for him and he was pleased, overall, with his performance.

THE STAGES OF STRESS

While I have described the fundamental nature of stress, I want to underscore the fact that stress develops in stages. For some traders, one stage may represent a more daunting struggle than the others. It is, therefore, important to understand the stages and what specific problems may arise within each.

Initial Stage

The initial stage includes symptoms of anxiety, depression, shock, and confusion. Some people stay locked in this initial stage, and their symptoms may persist long after the stressful event. They may never progress to the subsequent phases, or they may experience them briefly and then revert back to the original anxiety syndrome. When the initial shock responses persist, they may begin to complain of depressive symptoms or exhibit tachycardia (rapid cardiac pulse), hyperventilation, or a dysfunctional bowel or bladder. They become regular visitors to medical clinics with complaints of physical illness.

Secondary Stage

At other times, stress may lead to behavioral patterns: memory loss, hypervigilance (always on alert or with narrowed attention, and constantly checking and rechecking one's environment), inability to concentrate, emotional distancing, emotional numbing, and a tendency to deny the reality of the event. When these symptoms persist as the dominant feature of stress, the trader is likely to complain of a sense of emptiness, feelings of vulnerability, and a sense of depersonalization. He may complain that nothing seems real and that he feels like a robot. Emotionally numbed, he becomes unable to read the responses of others and feels extremely suspicious, distrustful, and doubtful.

This secondary stage also has earmarks of an obsessive-compulsive disorder with recurrent, uncontrolled intrusive thoughts, emotional detachment, still more suspicion, and loss of identity. As one person

described it: “I don’t know who I am. I cannot be certain if I am who I think I am, and I certainly can’t trust other people. It’s as if I am disconnected from my feelings and can’t trust my instincts. So, I don’t know how to read situations. I sometimes think other people are working through me, or that I am merely the vehicle for another force.”

A case in point along these lines was Jamie, who lost a lot of money in 2004 and was not able to come out of the negative downward spiral. In October 2006 he was very negative about the markets and the possibility that the midterm elections the following month might not be decisive and might trigger a lot of recounts and litigation. He was shorting the dollar and the market but very cautiously, because he had no cushion. Jamie was looking for bigger opportunities but would approach them with greater awareness of risk management principles.

Earlier in the year, Jamie had been up about \$15 million. He had hoped to get to \$50 million, but because of a few bad bets he lost the \$15 million. He was bummed out and became very risk-averse because he didn’t want to lose more. Jamie felt that he would be up for the year if he had stayed with fixed income trades and not switched to currencies and commodities. He didn’t really trade with a specific target in mind or with the idea of sizing his bets based on his conviction level. He was more dependent on momentum moves, which hadn’t happened for him or in his space.

Third Stage

The third stage of stress is characterized by the persistence of intrusive thoughts about the stressful event during sleeping and waking hours. This includes unresolved and persistent problems with guilt, fear, anger, and grief. Traders may keep replaying past trades in a neurotic or compulsive way such that they experience each trade as if it were being repeated. This serves only to set in motion a self-fulfilling prophecy of doubt, shame, suspicion, avoidance, withholding, and the persistence of negative emotions. When a trader reacts to the negative symptoms and emotions of stress this way, he is likely to continue to see no new opportunities. He will repeatedly feel rejected or humiliated and feel pressure to respond to new trades in the same self-protective patterns—if he decides to trade at all. Thus, the cycle continues. This will most certainly lead to a lack of satisfaction and fulfillment and an inability to meet career goals or visions.

This was the case with Tad, who was trying to get back his groove. Since the middle of 2003 when he was up \$6 million, he hadn’t been able to sustain his streak, and lost his trust in his instinct to get into a trade and especially to get out of a trade when it wasn’t working. He became too attached to his longer-term analytical ideas and did not pay as much attention to the markets. Since Tad was part of a larger portfolio, his

portfolio manager decided to stop his trading until he could find some ideas. Tad would rather trade small, even in his personal account, with the hope of recapturing the feeling so that he could rely on his instinct when the opportunity presented itself.

Stage Four

The trader who is experiencing third-stage types of symptoms may naturally feel helpless and hopeless. If this state continues, it can lead to a fourth and even more serious stage of stress characterized by chronic depression and a variety of other syndromes, including becoming accident prone or exhibiting daredevil behavior designed to produce a temporary alleviation of distress. Some victims may enter into high-adrenaline-producing activities in order to create an extraordinary sense of omnipotence that numbs their sense of inadequacy and thwarts the emotional pain of memory. Generally, however, such activities and the highs associated with them are short-lived, and the individual soon finds himself again depressed—empty and drained of vitality. Then the victim may seek relief in alcohol, drugs, or other substances, thus initiating a new problem.

TAKING IT STEP-BY-STEP

Most likely you have not considered the possibility that you can learn to live with and even use your stress rather than mask it. You may not have considered that your own sense of powerlessness and victimization has created much of the way you experience the world.

Walter, the trader who was profiled at the beginning of the chapter, was one person who successfully navigated this transition. After he acknowledged how his anxiety had overtaken him following the terrorist attack on 9/11, he could start rebuilding his career, bit by bit. He didn't jump in and start trading big positions the day after his breakthrough, of course. He waded, rather than dove, back into the roiling waters of the stock market, beginning with small trades. Along with more therapy and medication, he learned the relaxation exercise I discuss in Chapter 14, and performed it each morning before plunging into his workday. Gradually, he was able to once again accept the normal anxiety that is part of his profession.

And you can, too. Stress does not have to result in a self-cycling pattern of negativity. A first step is to look at how much you are trying to change the circumstances around you rather than accepting them as they are. Aristotle wrote that "a thing is a thing," and yet we tend to project our own interpretations onto situations far more than is justifiable. Indeed, the

true task of this book is to assist you in learning to accept things as they are and to stop attributing more meaning to them than they deserve. It is critical to distinguish between events and your interpretations of them. I will return to this concept again in later chapters; for now, try to accept this as a key to managing your stress. Each new situation is full of possibility if you can only approach it in that way.

KEY SYMPTOMS OF STRESS

- Shortness of breath
 - Dizziness
 - Faintness
 - Numbness
 - Tingling in the extremities
 - Palpitations
 - Gagging
 - Choking
 - Esophageal and gastric reflux
 - Butterflies in the stomach
 - Diarrhea
 - Urinary urgency and frequency
 - Nausea
 - Blurred vision
 - Confusing thoughts
 - Inability to concentrate
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