“What is your risk profile?”

My client tells me he has been asked this question so many times by investment advisers over the years that he is weary of being asked yet again. Sitting across him as his investment adviser (and being obliged to ask), I smile. I agree with him.

He tells me, “I just want to make money and obviously to lose as little as possible, and if at all possible, none.”

Again, I smile and nod. I completely understand what he is saying.

Ken is not alone. This is but one frustration we all struggle with. How do we achieve the goal of making as much as we can, while losing as little as possible?

The answer is not as difficult to know as it is hard to follow. It lies in understanding the core of this tension. Who is holding the bow? The knowledge of the core comes from being aware of and paying attention to the archer instead of the shots from the bow. It is found in the archer’s tendencies, likely reactions, thought patterns, and the openness to tweak the details until the tension is kept taut, sharp, alert, and ready to pounce. That is the answer to this collective frustration.

Once we have insight into who is holding the bow and how and where to tweak to achieve the results we desire, then to invest is to be at ease, with both self and money. The struggle will no longer be about dollars and cents (nor risks), instead it will be of the tweaking of the self in order to be at ease.
My Money Personality

Each one of us is composed of a unique blend of characteristics. Our persona changes according to the settings we are in and the people we are with. Our persona may depend on how we want others to see us. We may identify with our persona for a long time, perhaps even for a lifetime.

But there come times when the real self needs to emerge, pivotal moments in life. Often, these times of decision involve money.

How we think, act, feel, and decide when money is involved, especially when large sums are at stake, such as in trading and investing, is pronounced. Sometimes what’s at stake is all the savings we have, the last capital or all the borrowings we could afford. When the pressure reaches the boiling point, there is no hiding the real self.

The question arises, Who is the real self? Often we are seeking the true self after it has been ignored, buried, neglected, and in oblivion for many years.

To know the true self is to know our own Money Personality. Our money and our self are entwined. We cannot afford to live behind a façade or hide the self in a persona when money is at stake. When pressure rises, emotions soar, and the self that emerges is the one that’s always been there.

To become acquainted with the one who’s there all along, is to pay attention to who we are when we trade, invest, and deal with money. You will find your real emotions, thought patterns, attitudes, and behaviors exposed and visible. They may frustrate and anger you to change or they may push you into the corner of regret and defeat and cause you to sulk for the rest of your trading life and entire lifetime. Or you may just choose to remain blind to it all. Which is it going to be depends on the real self. You need to find out your own.

There are five elements that contribute to the Money Personality that we express today. They are combination of genotype and nurturing, the influences of the culture and the environment we live in, and our past experiences, all play a role in shaping our Money Personality.

Genotype and Nurture

Genotype is basically the genetic composition of an individual. Many believe our genetic makeup plays a part in who we are. Our parents’, grandparents’, and ancestors’ genotypes contribute to our very own.
This genetic inheritance can be manifested in our susceptibility to certain diseases or behavioral traits.

There are certain behavioral traits that are more damaging than others for investors, like impulsiveness and destructive fear. As we analyze these behavioral traits in the next few chapters, we will come upon certain mutations of genotypes that have the propensity to make one more easily fall, transit, or slip into those modes. There are particular brain chemicals that, if “latched” onto certain mutations of genes, cause the investor to be vulnerable to those unproductive traits in trading, but vulnerability does not translate to victimization. Vulnerability can be overcome.

This very concept of behavioral traits and genetic disposition (especially the unproductive and detrimental ones) continue to lead us into numerous on-going debates, research, and discoveries in this area. Epigenetics is one, where scientists in this area are discovering that our genetic makeup can be changed by the environment we live in and how we live.

The study of identical twins (who share identical DNA) provides invaluable insight into how genes can be altered by life experience. A documentary titled *The Secret Life of Twins* aired on BBC1 (first broadcast in September 2009 in the UK, and then replayed and aired in Australia in December 2012) revealed the story of a pair of 31-year-old identical twins, Chris and Xand van Tulleken, who share almost everything, except for their pain threshold. When asked to immerse their hands into a case filled with ice, Chris did not flinch while Xand felt chilled almost immediately. Why the difference in pain thresholds despite sharing identical genetic makeup? The program revealed that Chris has had conditioning to the cold through working in the Arctic for a long period of time. Chris’s pain threshold had been toughened by the environment he was in. His genetic makeup was altered.

This study of twins has important implications for investors and traders. The pain of loss is one emotion that is encountered often in trading life and the ability to alter our genetic pain threshold through experience is a significant affirmation of how we can be trained to become better investors.

The debate over “nature versus nurture” shall continue for a while more. However, if we have discovered any behaviors, thought patterns, or emotions that are detrimental to investing, even if they are part of our genetic makeup, we have learned that they can be
altered, and they must. Otherwise we will continue to be frustrated and feel defeated with ourselves.

All that’s needed is first awareness and then reconditioning. I have done it.

I grew up being very careful with money. A not-so-complimentary term would be *tightfisted*. My guess is that I learned my caution with money either because of my genetic makeup or through observing the way my parents spent money. Majoring in accounting at the university did not help with changing my disposition. This tightfisted personality is predisposed toward saving every dollar and cent and earning every dollar possible.

I became aware of this trait early on in my trading career—thankfully, as many of my trades were frustrated. I missed many trades as I concentrated on chasing the last cent on sales and saved every cent on purchases. The aim was to sell at the peak and get the highest price possible before a stock turns down and, on buying, to pay as little as possible. I would hardly place *market orders*: those are for the “indiscriminating” traders. I would go on the queue (to buy or sell) to wait and often trade slightly above or under what I thought would be reasonable.

### Market Orders

Market orders transact immediately at market prices. Prices for buying and selling a particular stock can be viewed at the “Market Depth” screen for a stock. Buyers with the highest bid price go on top of the queue on the left and sellers offering the lowest sale price go to the top of the offer queue on the right of the depth screen. There is often a spread or gap between the two prices. To transact on-market or at market price, a buyer jumps the queue and buys at the highest offer price and a seller sells at the lowest bid price.

---

I can’t begin to count the amount of profits I have missed due to the tightfisted personality! I missed opportunities to make good profits as the stocks I was on the queue to buy (which I didn’t end up buying, because I queued a few cents too low) went on to rise and rally, and where there were profits to be locked in, I missed selling them (yes, because I queued a few cents too high). It became even more disastrous if the stocks I meant to sell to lock in profits subsequently turned to losses (all for a few cents more!)
I knew I had to change, to survive as an investor not to mention in a career as an investment adviser/broker. It was a time-consuming process, but I did it. I had to consciously remind myself, each time before placing a trade, “Every dollar and cent does not count in investing.” Stick to the big picture: “It’s the thousands and millions of dollars that count.” Forget about being small-minded. To get big results, we need to first be able to think with a big mind and see the big picture.

Now, I am no longer concerned if I locked in less profit for my clients (I’m sure eventually all my clients will share my view, too). I have more chances in the future to compound the now-higher capital. If I buy stocks that are too expensive and if my conviction with the stock stays, I stick with the plan and wait for recovery. I no longer torment myself for selling too low or buying too high. Instead I stick to the plan, the big picture of accumulating wealth over time, over a lifetime.

On looking back at my journey through this particular trait, I realize that I gained more than I had bargained for. This new conditioning in my new thought process spilled over to other nontrading areas of my life. I no longer live in the mental prison of “getting the best price for everything.” I feel more free. Trading triggered the change in me to be a bigger person.

This tightfisted money personality can manifest in other ways. Instead of attempting to get the best prices all the time, it could instead manifest in being dollar-pinching with brokerage fees, or commissions. The logic of not overpaying on transaction costs prevails, but when this consideration becomes a hindrance to better returns or sounder risk management post fees, then you will be worse off for this “mental prison.”

The Money Culture

The race, ethnic group, or nationality we are born into or live in has its own idiosyncrasies. The way we speak, words we use, preferences for food, how we spend money, and what we spend money on are the quirks of culture.

The culture we live in has a great influence on our attitude toward wealth and the practices we have formed regarding money. Russell Peters, a Canadian stand-up comedian, performs to sell-out audiences by poking fun at the audiences’ own ethnic stereotypical