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The Trouble with Minding Markets: Emotional Finance in Context

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Abstract

The term 'Emotional Finance' normally denotes a methodological approach advocated by Richard Taffler and David Tuckett, which they intended as a challenge both to Behavioral Finance and to mainstream finance and economics. In the wake of the Great Financial Crisis, Emotional Finance received a warm reception from regulators, the financial press, and the CFA Institute. Nearly a decade on, their ideas have largely failed to achieve traction in the academic literature, and continue to struggle to find empirical validation. Their approach is essentially an application of Kleinian psychoanalysis to financial markets, albeit without the terminological rigor that psychoanalytic practitioners might expect. Because their approach is inherently interdisciplinary, it has rarely been subject to scrutiny, as few psychoanalytic commentators feel qualified to comment on financial markets, and fewer finance academics feel comfortable commenting on the psychoanalytic theory. This chapter characterizes the main theoretical claims of Emotional Finance, and subjects each of them to scrutiny, finding them largely untenable. Although financial bubbles are commonplace and emotional responses to markets unremarkable, the subsidiary arguments advanced by advocates of Emotional Finance to support their primary claims are found wanting. The interpretative strategy of Emotional Finance is fundamentally flawed. Although it is fruitful to analyze the role of emotions in financial markets, more precise, rigorous and realistic approaches to these problems are needed.

Keywords: emotional finance, Melanie Klein, David Tuckett, applied psychoanalysis, behavioural finance

1. Introduction

'Emotional Finance', as inaugurated by Richard Taffler and David Tuckett, received a warm reception in the early 2010s from regulators, the financial press, and investment management industry's main professional body, the CFA Institute. Yet outside their immediate social and professional circles, the wider academic community largely ignored both Emotional Finance's challenge to Behavioural Finance and its theoretical and methodological approach, which is, at its core, an application of Kleinian psychoanalysis to interpreting the individual psychology of traders and to describing the group psychology of financial markets. A decade after the financial crisis, industry professionals rarely talk about 'Emotional Finance' at all,

except insofar as they see ‘emotional biases’ as a sub-species of behavioural biases, which hardly amounts to a successful challenge to Behavioural Finance [1]. Because Taffler and Tuckett’s approach is inherently interdisciplinary, few practicing psychoanalysts have felt equipped to comment upon their characterisation of financial markets, and yet fewer finance academics have the training or inclination to reckon with Taffler and Tuckett’s idiosyncratic handling of psychoanalytic theory.

Emotional Finance, as an intellectual project, rests on four related claims: first, that financial assets are categorically different from other kinds of commodities; second, that financial innovation peculiarly lends itself to being experienced as a ‘phantastic object’; third, that regulators can and should design institutional mechanisms that acknowledge the psychodynamics of the dealing room; and fourth, that the recent financial crisis ought to be handled in a manner similar to the post-Apartheid South African regime’s Truth and Reconciliation Commission. While agreeing that financial bubbles are banal and that emotional responses to the vicissitudes of the market are nothing remarkable, this chapter argues that financial assets are not categorically distinct; that the term ‘phantastic object’ is superfluous and its application is a variant of the ‘sharpshooter’ fallacy; that narrative causation is not formally equivalent to causality; that the relationship between group psychology and individual psychodynamics is under-theorised; and that financial instability is not the same as financial bubbles. Finally, there are other bigger threats to financial stability than those identified by the techniques employed by advocates of Emotional Finance, especially given the periods of relative calm in financial markets between the Great Financial Crisis (2007-2008) and its sequelae in the Eurozone Debt Crisis (2009-2012) and the recent crisis caused by the global coronavirus pandemic in Q2 2020.

2. The nature of financial assets

By far the most problematic claim of Emotional Finance is that financial assets are somehow a special category. In *Minding the Markets*, Tuckett claims there are three characteristics of financial assets that make them unusually amenable to obtaining the status of a ‘phantastic object’: their volatility, their abstract quality, and the difficulty in determining whether or not a manager’s success was attributable to skill or luck ([2], p. xvii). Of these, the volatility argument is the most straightforward and also most peculiar. While it is certainly true that individual listed securities, futures contracts, or financial derivatives contracts may be highly volatile, financial markets themselves are notable for their lack of volatility. This is straightforward to demonstrate empirically because the volatility of the S&P 500 (as measured by the implied volatility of index options for the following 30 days) is itself a tradable index called the VIX or CBOE Volatility Index. Its performance since its inception in 1985 can be seen below in **Figure 1**.

For most of the last thirty-five years, the VIX has hovered around 15 to 25, with a high of 150 during the October 1987 ‘flash crash’. In the fourth quarter of 2008, after the Lehman collapse, it peaked at around 80. What does this mean? The VIX is a measure of volatility over a 30-day period, annualised, such that a VIX of 20 means that the market is expected to move up or down by 5.8% (or $20/\sqrt{12}$) over the next 30 days. Even a VIX of 80 in means that the market is expected to move 23.12% up or down over the next 30 days, which most recently occurred in Q2 2020 with the outbreak of the COVID-19 pandemic. The daily volatility, by contrast, is calculated by dividing the number by $\sqrt{256}$, or the number of trading days in an average year, which for a VIX of 20, means that the market is expected to move up or down by 1.25% daily.

How does this compare to other commodities, say crude oil, or even to gold, that supposedly safe haven? **Figure 2** answers this question. In the case of crude oil, the CBOE also publishes an Oil Volatility Index, which is markedly higher than the S&P

500, which compares favourably to a volatility index for gold over the thirty-year period from 1990-2020.

Some might complain that this is because oil and gold are exchange-traded and thus subject to added volatility, but, in fact, there is good evidence that exchange-based futures trading lowers volatility rather than amplifies it. We know this because of a natural experiment afforded by the Onion Futures Act of 1958, which banned futures trading in onions [3]. The price volatility of onions is considerably

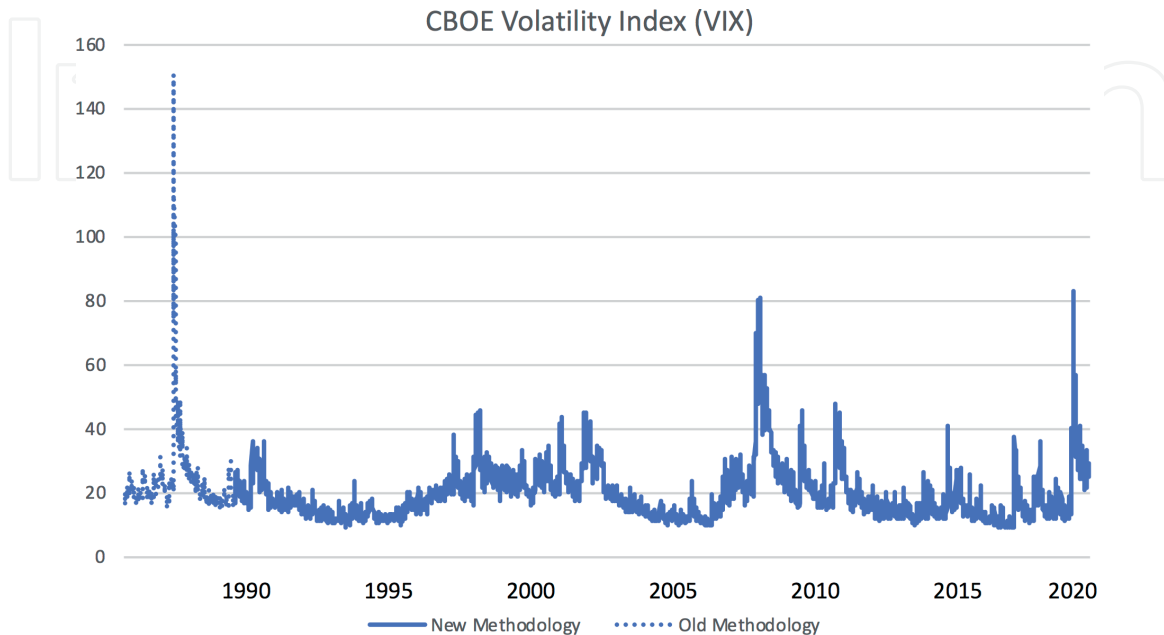


Figure 1. CBOE Volatility Index (VIX) from December 1985 to October 2020 (daily closings). <http://www.cboe.com/products/vix-index-volatility/vix-options-and-futures/vix-index/vix-historical-data> (CBOE - Chicago Board Options Exchange).

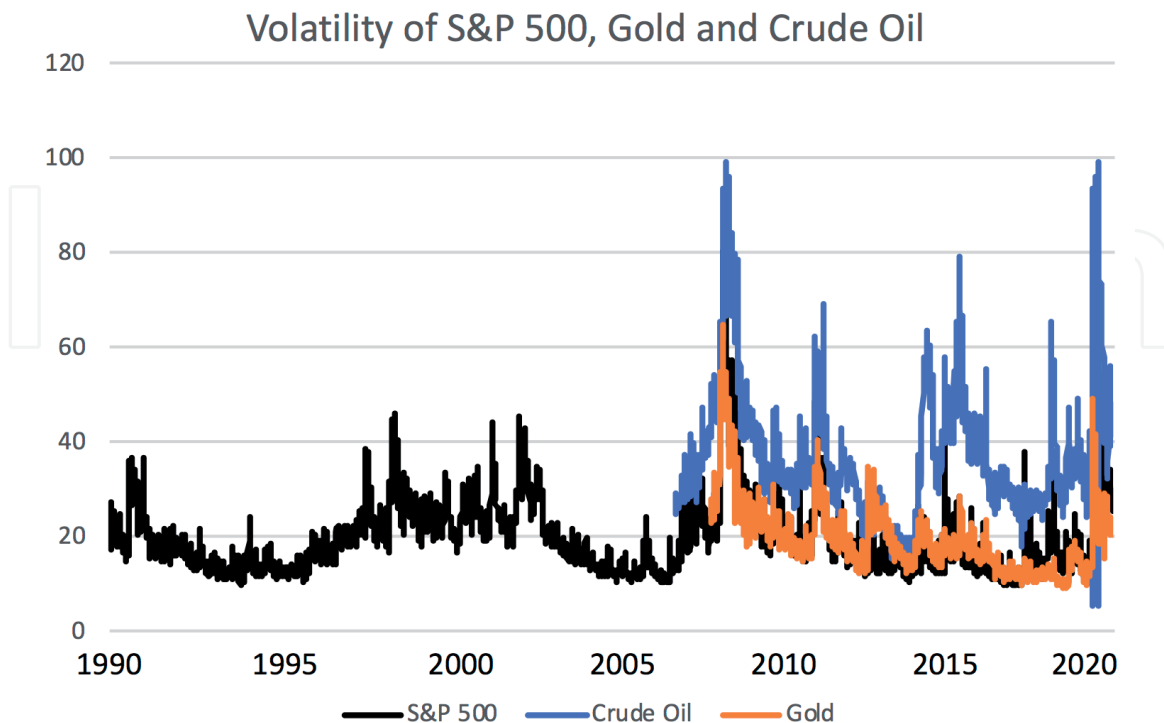


Figure 2. Comparison of Oil, Stocks, and Gold Volatility Indices 1990-2020. <http://www.cboe.com/products/vix-index-volatility/volatility-on-etfs/cboe-crude-oil-etf-volatility-index-ovx> (CBOE - Chicago Board Options Exchange); <http://www.cboe.com/products/vix-index-volatility/volatility-on-etfs/cboe-gold-etf-volatility-index-gvz> (CBOE - Chicago Board Options Exchange); <http://www.cboe.com/products/vix-index-volatility/vix-options-and-futures/vix-index/vix-historical-data> (CBOE - Chicago Board Options Exchange).

greater than that of either the S&P 500 or of crude oil. The charts in **Figure 3** would not surprise economists or finance academics.

As acknowledged above, individual stocks may move more than the market as a whole, but most investment managers hedge this risk by holding a portfolio composed of a variety of different asset classes, let alone constituents among them. Retail investors, rather than professional money managers, may find themselves credit-constrained and forced to sell if a security falls quickly in value, but most fund managers have either automated stop-losses or the discretion with which to cut their losses. Moreover, over longer time horizons, financial assets are not particularly volatile compared to house prices in major markets in last fifteen years as shown in **Figure 4**.

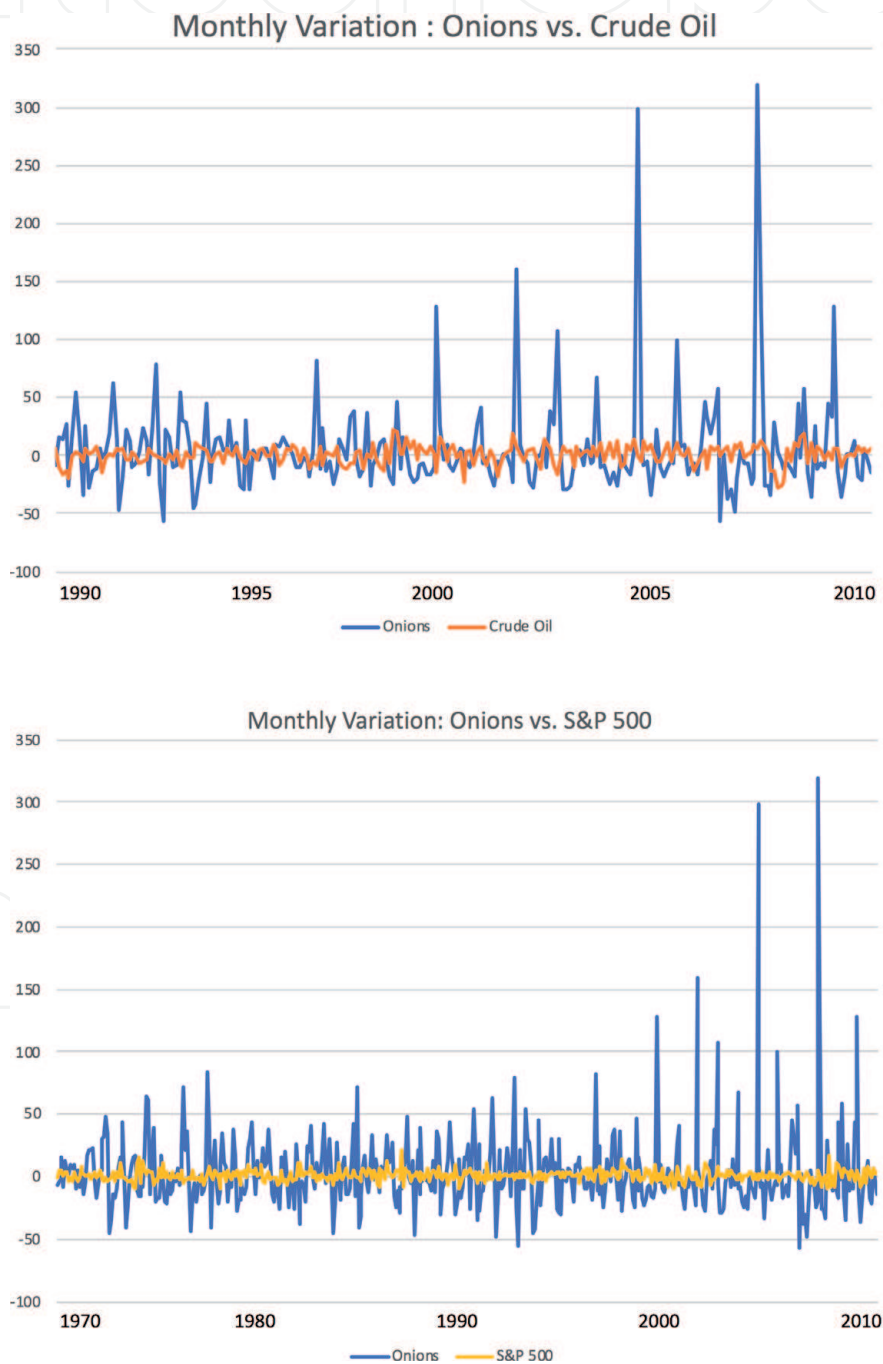


Figure 3. Onions vs Crude Oil, Onions vs S&P 500. (a and b) <https://www.investing.com/indices/us-spx-500-historical-data> (Investing.com Historical Data); <https://www.indexmundi.com/commodities/?commodity=crude-oil&months=360> (Index Mundi data archive); <https://usda.library.cornell.edu/concern/publications/k643b116n?locale=en> (USDA Data Library); <https://bsic.it/the-onion-paradox-or-why-futures-are-good-for-the-economy/> (Bocconi Student Investors Club Blog).

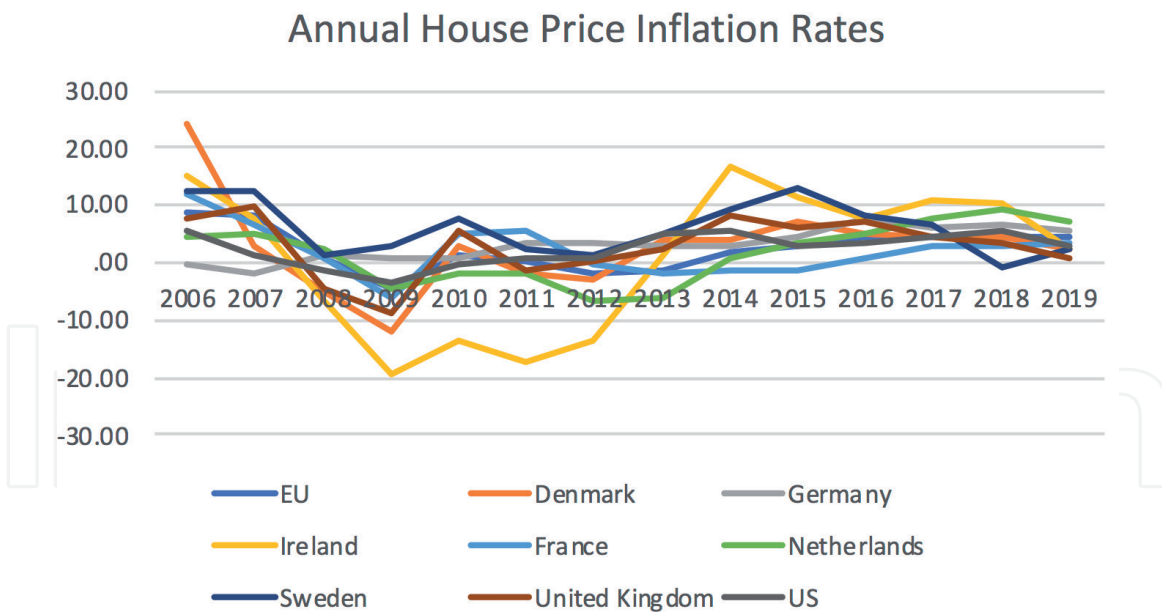


Figure 4. Annual House Price Inflation Rates, 2006-2020. <https://appsso.eurostat.ec.europa.eu/nui/setupDownloads.do> (Eurostat Data Archive); [https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&1921=survey&1903=11](https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&1921=survey&1903=11#reqid=19&step=3&isuri=1&1921=survey&1903=11) (BEA, National Data).

The volatility of the stock market against the risk-free rate is not especially significant even during the Dotcom Crashes. As many commentators noticed at the time of the Lehman collapse, the problem was that most fund managers had spent the majority of their career chasing returns and had little experience of market snaps of any kind. Additionally, market snaps of the kind experienced during the 2008 crash or even the Eurobond crisis of 2011-12 pale in comparison to economic shocks such as that experienced during the coronavirus pandemic in Q1-Q2 2020 as illustrated in **Figure 5**.

This is why financial engineers worked so hard in the period from 2003 to 2006 to create instruments, like mortgage-backed securities and collateralised debt obligations, that gave investors leveraged access to a much more volatile housing market.

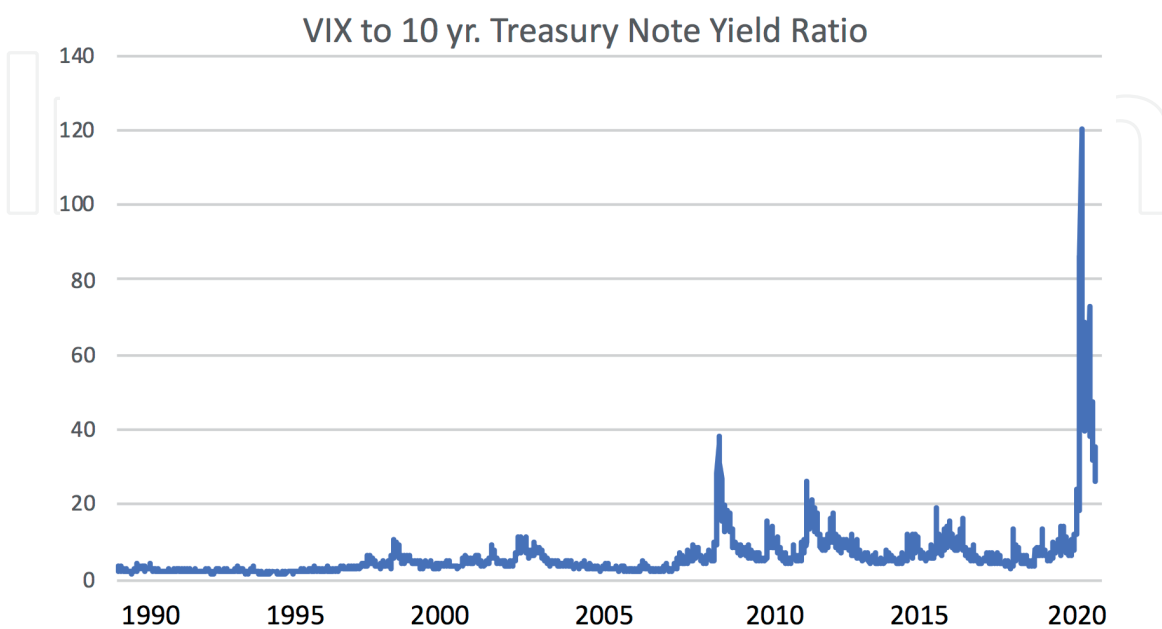


Figure 5. VIX to 10 yr. Treasury Note Yield Ratio, 1990-2020. <https://www.macrotrends.net/2016/10-year-treasury-bond-rate-yield-chart> (Macrotrends Data Archive); <http://www.cboe.com/products/vix-index-volatility/vix-options-and-futures/vix-index/vix-historical-data> (CBOE - Chicago Board Options Exchange).

There is no reason to contest much of Tuckett's characterisation of the problems with the 'efficient-markets hypothesis' except to say that it was originally developed as a simplifying assumption that made certain classes of models tractable. The slippage that allowed it to become a (flawed) description of reality, let alone an operative ideal and normative regulatory goal, is ideological and not the consequence of the internal logic of the idea. Some markets are efficient and do not forecast prices reliably, as Holbrook Working discovered when he explored North American grain markets in the interwar period or securities in the postwar moment [4, 5].

The second quality of financial assets, identified by Tuckett, which makes them amenable to the psychodynamic processes that he describes is their putative 'abstractness'. This is surely in the eyes of the beholder. As early as Adam Smith [6], economic writers identified two (or three) distinct forms of value: value-in-use and value-in-exchange. Value-in-use can be further distinguished as value-in-consumption or in the income generated by a particular asset, i.e. you could live in a house or rent it out, you could eat the produce of your garden or sell it, etc. Value-in-exchange is what it commands either on an open market or in a barter transaction. For financial assets, there is often little consumable 'value-in-use' except at the margins, insofar as some investors may buy Class A or B shares in Berkshire Hathaway in order to meet Warren Buffett at his annual junket in Omaha and other investors (especially aggressive hedge funds) may purchase shares in order to control a company, oust its leadership, merge it with another, or even liquidate it. Most often, however, financial assets either generate income (which Tuckett suggests is usually calculated through a capital asset pricing model) or are sold on for speculative gains or losses. Modern finance theory holds that efficient markets should arbitrage value-in-use (income) and value-in-exchange, so that the dividend is 'priced into' the share, but in practice many investors are driven by a combination of dividend income and capital gains, and the protection of the latter in the U.S. and UK tax codes has been distorting investment behaviour these last thirty years or so.

Yet, in practice, these instruments are not abstract to those who trade them. Bonds have par values, generate coupon payments, have interest rates and calculable yields based on their prices. Equities may or may not pay dividends, but can be valued on that basis or on the book value of the firm. A variety of options, including the right to buy or sell a security at a particular price, have been well known for over 500 years ([7], p. 2-3). More complex financial derivatives were not abstract so much as they were opaque, in that they were tied to underlying assets that were, themselves, difficult to value. But even if we were to call that 'abstraction', it is by no means obvious that this is the sort of abstraction that lends itself to phantasy. It is equally plausible that relatively simple, graspable items in everyday life are the stuff of phantasies. The very complexity of some of the more recent species of financial assets (especially collateralised debt obligations that were tied to securitised mortgages) made them difficult to value, but the problem was not that investment managers fantasised about them, but rather that rating agencies were put under pressure to score them more highly than they deserved.

Elsewhere Tuckett contrasts financial assets with a television set, where 'a "rational" consumer can consult a range of information about the price and quality and on that basis make a decision' ([2], p. 21). He goes on to argue that the buyer might notice he got a bad deal, might observe the prices of televisions fluctuates as models sell out quickly or not at all, or as new models appear, and he might have buyer's remorse, and even sell it on the second-hand market. Yet Tuckett maintains that 'with financial assets the situation is very different [from television sets] as they have no intrinsic value but one determined by ambiguous information and varying expectations about an uncertain future that plays out in time' ([2], p. 21). This is simply untrue. Bonds represent claims, either preferential or subordinated,

on the business revenue or tax revenue of the firm or sovereign that issued them, equities represent residual claims against the book value of a firm, whereas financial derivatives (swaps, options, etc) represent contractual arrangements that can, and have, been litigated. The fortunes made by vulture funds that purchased collateralised debt obligations composed of subprime mortgages or of junior Greek debt is an indication that these financial assets do have values that are calculable.

What is more difficult to calculate, and is indeed often uncertain, is the depth of the secondary market at a given time, and hence the liquidity risk. Tuckett commits the same error as proponents of the efficient-markets hypothesis do when he ignores what is known in the trade as “the limits of arbitrage”, in that he assumes that buyers are not credit constrained and only buy or sell because of their sense of the direction of the market. The reality is very different, in that people and institutions can be forced to sell for a range of reasons (to raise money to meet current obligations) and institutions, like pension funds, can be forced to purchase risky assets because they have to match their assets with their liabilities to generate the returns needed to meet obligations that are years away. Liquidity risk is particularly acute in a financial crisis where people are not buying or selling anything at any price, but anyone who has tried to sell a television set near the end of the month can tell you that the used market also depends on the proximity of the average consumer to a weekly or monthly pay day, depending on the price level. Sensitivity to liquidity risk is difficult to know *ex-ante*, but it is not analytically difficult to grasp.

Moreover, the distinction between risk and uncertainty in Tuckett’s account is problematic. Risk is calculable based on an ergodic assumption that the future will be like the past. To a surprising degree, this assumption holds in financial markets, as the ‘equity risk premium’ (the premium paid to investors for buying equities over government debt securities) has not changed much in 150 years, and, as the finance literature has decisively shown, has made owners of shares better off than those who eschew the risks attendant to them [8, 9].

Moreover, as **Figure 6** illustrates, the majority of the ‘total return’ from stocks comes from dividends not from price appreciation, which belies the idea that shares do not have a ‘value-in-use’ or income component that is tangible and real.

The returns above are for U.S. equities as an asset class (i.e. they represent ‘beta’), and say nothing about particular securities or vintages. Yet it is precisely because retail investors and professional money managers can buy (and sell) index-funds that active managers have to try to ‘beat’ the market. That is where the pressure comes, to generate ‘alpha’, which Tuckett correctly notices is ephemeral, and, according to adherents of the efficient-markets hypothesis, at best idiosyncratic and at worst a statistical mirage. The money managers that Tuckett identified have an incentive to depict their performance as a result of their skill, but given the survivorship bias (firms that get unlucky fail and disappear), the charge that even the big winners are probably ‘lucky monkeys’ is not without some real plausibility.

So, yes, returns are ‘uncertain,’ but what does this mean? ‘Uncertainty’ refers to the ‘unknown unknowns’ of Knight and Keynes, but hardly matters much to the everyday operation of markets, which have remained remarkably continuous and well-funded in all but a handful of cases (some of the more exotic CDOs still do not trade at any price) through the last crisis. The reason that discussions of ‘uncertainty’ were back in vogue in the 2010s is that markets in 2003-2007 under-priced risk, because the models could not account for uncertainty. Once-in-a-lifetime events (the so-called Black Swans) are important to risk managers, but for Tuckett’s argument to work they have to be an everyday feature of markets, which they, by definition, are not. Tuckett is describing the life of an onion trader not a financial asset manager. This is precisely why more recent work on emotions in financial

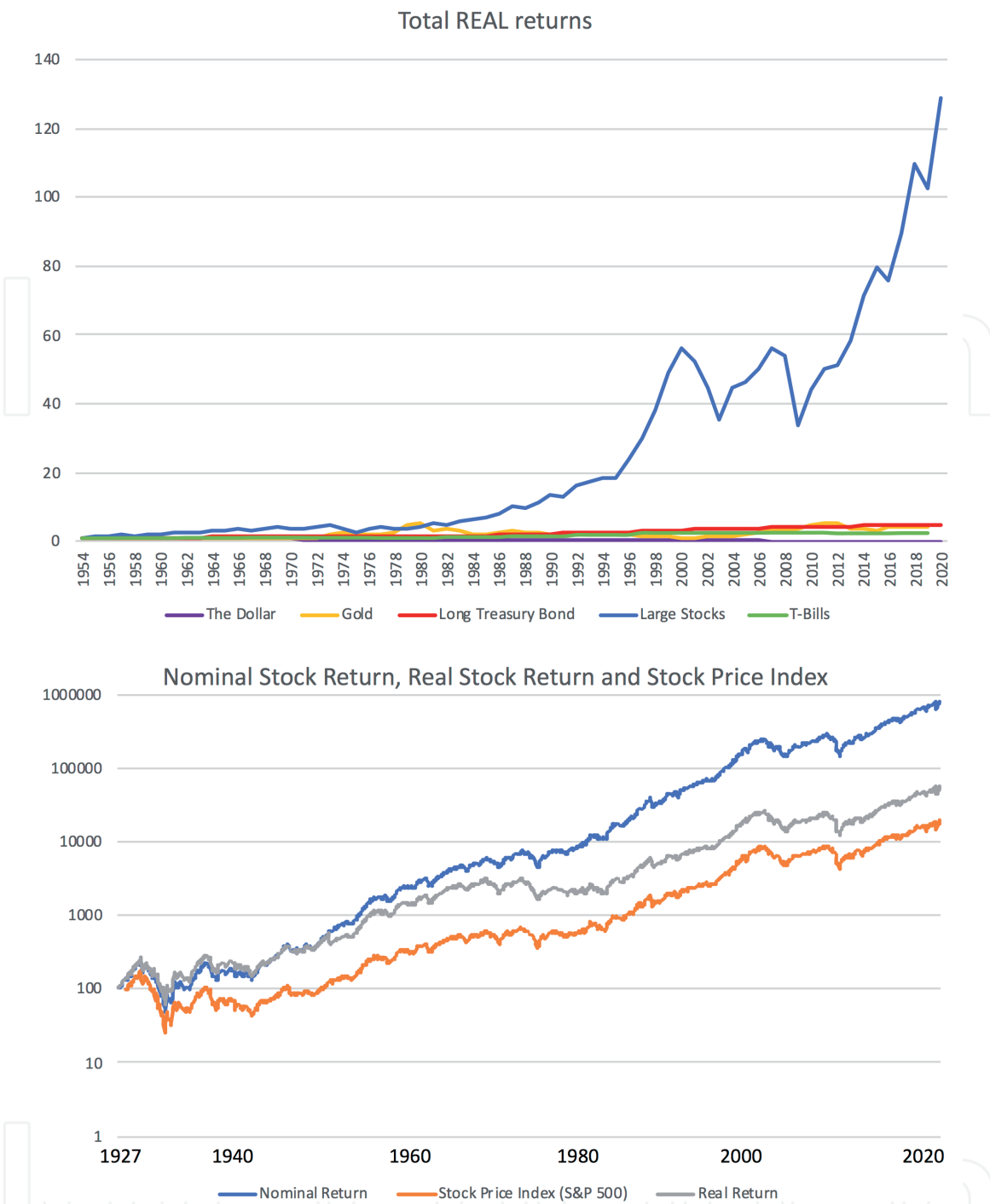


Figure 6. Nominal and Real Returns from Stocks and the Stock Index, 1927-2020. (a) <https://www.statista.com/statistics/1032048/value-us-dollar-since-1640/> (Statista archive); <https://www.macrotrends.net/1333/historical-gold-prices-100-year-chart> <https://onlygold.com/gold-prices/historical-gold-prices/> (Macrotrends); <https://fred.stlouisfed.org/series/DGS20#0> <https://www.multpl.com/s-p-500-historical-prices/table/by-year> (St Louis Federal Reserve Archive); <https://seekingalpha.com/article/4311451-stocks-bonds-bills-and-inflation-returns-for-94-years-ending-december-2019> (Seeking Alpha Blog). (b) <https://finance.yahoo.com/quote/%5EGSPC/history?period1=-1325635200&period2=1603238400&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true>; <https://www.officialdata.org/us/stocks/s-p-500/1927?amount=100&endYear=2020> (Yahoo Finance); <https://www.in2013dollars.com/us/inflation/1927#:~:text=In%20other%20words%2C%20%24100%20in,inflation%20rate%20was%20%2D1.69%25.> (CPI Inflation Calculator).

markets has eschewed the problematic articulated by Taffler and Tuckett in favour of understanding how emotions affect participants in markets under ordinary trading conditions [10].

While a middle class, middle-aged Londoner might indeed see a television as ordinary and mundane and a share as ‘exotic’ and ‘abstract’, but as seen in the London riots of 2011, ordinary people did risk their livelihoods, reputation (and a possible

criminal record) and even lives to snatch televisions and trainers from shops. Before globalisation, not so long ago, consumers in emerging markets invested television sets with almost magical properties. If television sets are in the eye of the beholder, it is equally plausible that various financial instruments are mundane, familiar and more or less rationally estimable by people who trade them every day. Is financial innovation, in its first incarnation then, any different?

Tuckett thinks so. He cites tulips, subscription shares (in the South Sea Bubble), and a host of other items ([2], p. 18) as inherently generating outsized excitement because they represented 'financial innovation', but these assertions are not proven. In some cases, as with tulips and subscription shares, the characterisation of them as novel financial innovations is just wrong ([7], pp. 2-4), as futures trading in Baltic grain had preceded that in tulips by over half a century, and the Bank of England offered subscription shares to English investors decades before the South Sea Company directors did. In other cases, it is easier to explain the erratic valuations in terms of Akerlof's lemon problem, which can be summarised as those who cannot tell good wine from bad will overpay for the latter and undervalue the former [11]. This is not to deny that bubbles form in financial markets or that they are further fuelled by fantastic narratives about the value of the assets, which are their focal point. But let us not forget that the 'bubble' in the early noughties was not in collateralised debt obligations, but rather in housing market where price rises were fuelled by the advent of subprime mortgages, which are neither especially abstract nor backed by something intangible. The trouble is not with the role of fantasies in bubbles, but rather with the theoretical formulation of these 'phantastic objects.' In short, there is nothing unique about financial assets.

3. What is a phantastic object?

The theoretical edifice of Emotional Finance equally depends on the usefulness of the term, 'phantastic object', as a plausible unit of analysis. Tuckett [2] gives his most recent definition of a phantastic object as 'subjectively very attractive "objects" (people, ideas or things) which we find highly exciting and idealise, imagining (feeling rather than thinking) they can satisfy our deepest desires, the meaning of which we are only partially aware' ([2], p. xi). According to Tuckett, he had 'coined the term' as an attempt to explain a situation where 'a story gets told about an object of apparent desire (such as a dotcom share, a tulip bulb, or a complex financial derivative), which becomes capable of generating excitement in a situation where outcomes are inherently uncertain' ([2], p. xiv). He reports that 'the term conjoins "phantasy" as in unconscious phantasy and "object" as in representation.' What does this mean? Tuckett further explains: 'the phantasy stimulated is about more than just a story of getting rich. Rather it is a story about participation in an imagined object relationship in which the possessor of the desired object plays with the omnipotent phantasy of having permanent and exclusive access to it and all good things' ([2], p. xiv). Although Freud and Klein both long ago recognised that all object relationships are ambivalent, Tuckett sees ambivalence (and with it a degree of abstraction, ambiguity and uncertainty) as necessary ingredients of this heady emotional stew [12, 13]. Yet the insistence on ambivalence, for emphasis, is hardly a cardinal sin.

The more serious problem arises, however, when we pick apart this notion of 'phantasy.' For Tuckett and Taffler, the usual citation is Freud's meditation on creative writing and daydreaming [14]. Here Freud develops a theory, no longer accepted even in literary theory, that a child's fantastical play is very similar to the creative writer, because both the child and the writer are able to distinguish their intensely rich libido-cathexed worlds and the characters they create for them

from external reality ([14], p. 142-3). Phantasies, both conscious and unconscious, come to replace play, for Freud, as 'the growing child when he stops playing, gives up nothing but the link with real objects; instead of playing, he now phantasises' ([14], p. 144). Adults populate their phantasies with their internal objects both in manifest and disguised forms. In that limited sense, Tuckett's 'phantastic object' is simply any object that has found a place in an adult's unconscious phantasy, or what Freud constructed as the 'psychical reality', which is unique to each individual. Exactly how 'financial assets' become the paradigmatic 'phantastic object' remains to be shown, unless what Tuckett really means is that financial assets evoke some memory of a part-object or maternal breast.

To complicate matters, Freud recognises that children rarely conceal their fantastical play, whereas 'the adult, on the contrary, is ashamed of his phantasies and hides them from other people. He cherishes them as his most intimate possessions, and as a rule he would rather confess his misdeeds than tell anyone his phantasies ([14], p. 144).' If so, it is all the more remarkable that the fund managers whom Tuckett interviewed were willing to tell their 'phantasies' to him, over the course of one meeting of 70 minutes or so, unless, if by analogy to Freud's neurotic patient who hopes for a cure, they confess their phantasies to Tuckett in hopes of absolution for speculative excess ([14], p. 145).

Freud's explanation of what causes adults to hide their phantasies in shame arises from the fact that they are 'either ambitious wishes, which serve to elevate the subject's personality; or they are exotic (sic) [erotic] ones' ([14], p. 146). But he cautions, 'we will not lay stress on the opposition between the two trends; we would rather emphasise the fact that they are often united' and just as often reparative ([14], p. 146-7). Even the most overtly 'ambitious, egotist wishes' have some element of sexual gratification involved, if merely auto-erotic in the most narcissistic of states. Freud finishes by comparing 'phantasies' to 'dreams' and noting their quality of wish fulfilment ([14], p. 148). All of this is very familiar to psychoanalysts, but Tuckett's neologism has lost the crucial sense, found in Freud, of erotic wish fulfilment, presumably because draining it of the erotic makes the concept more palatable to Tuckett's audience. The Strachey translation's tendency to render 'fantasy' as 'phantasy' (which is now the conventional usage in Britain) further reinforces the impression that it has little to do with sex, however alien the spelling may seem to American readers.

If we allow that conscious and unconscious narratives which adults weave about their internal objects are invested with libido and contain sexual gratification and conquest as elements of their function as wish fulfilment, then there is nothing unusual, let alone alarming, about a particular investment or set of investments acting as the vehicle, in such a fantasy, to unlimited wealth and with those resources the means to sexual conquest. Buyers of lottery tickets do this every day. To the extent that a particular object occupies a stereotyped place in such narratives, such that it becomes 'very attractive' and 'idealised' to an individual, let alone a group, then we have something closer to a 'fetish' or 'an inanimate object worshipped ... for its magical powers or as being inhabited by a spirit' ([15], p. 57). Fetish objects also provoke the 'divided states' that Tuckett describes ([2], p. xi), possess 'magical powers' and lead to 'potency the [fetishist may] otherwise lack' ([15], p. 57). Whereas many sexual fetishes function by synecdoche (feet, hair, clothes, footwear, etc), others do so by metonymy, offering a substitute object ([16], p. 132). There are two further features that sharpen the similarities between 'fetish object' and 'phantastic object', namely '(a) the fetish has multiple meanings derived by condensation, displacement and symbolisation from other objects, and (b) the fetishist behaves as though [the fetish object] actually were these other objects and is no more disturbed by incongruity or absurdity than a dreamer is while dreaming' ([15], p. 57).

Ironically, Tuckett's example of Aladdin's lamp is usually explained as a fetish object rather than a phantastic one. The use of 'pseudo-psychoanalytic' language ('phantastic object' in place of 'fetish object') may be more acceptable to the audience, but it has the consequence of dislocating the concept within a wider psychoanalytic discourse.

Although Tuckett does not acknowledge this in his own discussion, the Emotional Finance presentation of 'phantastic objects' also depends on these meanings derived from 'condensation, displacement and symbolisation' ([15], p. 57). Before exploring that in detail, it is first worth considering the alternative source of 'phantastic object' as offered by Tuckett, namely in the definition of 'phantasy' offered by Laplanche and Pontalis in their rival to the Rycroft volume ([17], pp. 317-321), which invokes the principle that 'the use of the term "phantasy" cannot fail to evoke the distinction between imagination and reality (perception). If this distinction is made into a major psycho-analytic axis of reference, we are brought to define phantasy as a purely illusory production which cannot be sustained when confronted with a correct apprehension of reality' ([17], p. 315). As they note, 'certain of Freud's writings appear to back up this type of approach. Thus in "Formulations on the Two Principles of Mental Functioning" (1911b), Freud sets the internal world, tending towards satisfaction by means of illusion, against an outside world which gradually imposes the reality principle upon the subject through the mediation of the perceptual system' ([17], p. 315).

For Taffler and Tuckett, the 'reality' of financial markets ultimately strips the 'phantastic objects' of their value if not their meaning, as the inevitable crash and de-idealisation leads to anger and revulsion [18]. As Laplanche and Pontalis also notice, modern psychoanalytic usage extends 'phantasy' to a range of conscious, preconscious and unconscious fantasies, thereby muddling the extent to which repression plays a role ([17], p. 315). They suggest, instead, distinguishing between day-dreams that serve as compromise-formations, common 'unconscious phantasies' that appear as precursors to neurotic symptoms, and unconscious fantasies that offer the seeds of wish fulfilment in dreams. With Tuckett's formulation, the narratives about 'phantastic objects' appear to be mostly preconscious, in that the fund managers are not necessarily aware of them until prompted by their interlocutor, but then venture them freely. Whether or not this is plausible in a psychoanalytic sense remains debatable, as Tuckett's formulation appears to ignore both the roles of secondary revision and of repression.

As with Freud, Laplanche and Pontalis also link phantasies to desire, which does not even merit an index entry in Tuckett [2]. In Laplanche and Pontalis, they emphasise the extent to which wish fulfilment evokes the 'hallucinatory memory of satisfaction' (1973, p. 318), or the maternal breast, which is a kind of primordial 'phantasy-object'. Yet they also acknowledge, 'the relationship between phantasy and desire seems to us to be more complicated than that. Even in their least elaborate forms, phantasies do not appear to be reducible to an intentional aim on the part of the desiring subject ...', and crucially 'it is not an object that the subject imagines and aims at, so to speak, but rather a sequence in which the subject has his own part to play and which the permutations of roles and attributions are possible' ([17], p. 318). Read that way, Tuckett's 'phantastic object' is, in effect, a contradiction in terms, in that it is not the object itself that the subject desires, but rather the outcome of the script, i.e. unbridled wealth, beautiful women (or men), and universal gratification. In other words, we're back to ordinary explanations that turn on greed, lust, and gluttony.

As to the relationship between the internalisation of the so-called 'phantastic object' and the processes Rycroft alludes to of 'condensation, displacement and symbolisation', these are, in effect, what Tuckett evokes when he describes the 'divided states' of idealisation and de-idealisation that he postulates occur in the

minds of traders. There may well be a value in thinking about how financial assets relate to Marxian and Freudian notions of 'fetishism,' but Tuckett forecloses this possibility with his neologism.

To summarise, there are two separate etymologies of 'phantastic object' in Tuckett's writings with Taffler on the subject. The strain that depends most heavily on Freud is very hard to distinguish from more conventional uses of 'fetish object' while the version that depends strictly on Laplanche and Pontalis is oxymoronic. Either 'phantastic objects' are essentially fetish objects, denuded of the explicit eroticism, or they are an inherently self-contradictory attempt to bridge the gap between part-objects expressed in paranoid-schizoid states (where what the infant desires is the maternal breast) and vehicles for the realisation of erotic phantasies in less regressed states of mind. The love affair, in short, is not with the financial asset or the car or the suit, but rather still with idea of 'getting the girl' or 'winning the game.'

The latter is simply an instance of superfluity and proliferation of neologisms, which in turn muddles the waters, whereas the former suggests something of the very problematic hermeneutic strategy employed by those who advocate for Emotional Finance.

4. Narrative causation versus causality

Interpretation is not explanation; causation is not causality. In the social sciences, this is almost a cliché, but they are important caveats. Causality rests on the identification of a specific mechanism by which X has an effect on Y. Explanations can be realistic in the sense that they try to account for external reality, or epistemic (anti-realist) in the sense that they strive for the internal consistency of the empirical model. Much of Tuckett's complaint with modern economics is that it strives for the latter, whereas the natural sciences present themselves as interested in the former, except perhaps in cosmology.

In finance, the movement of prices is easy to explain: they rise when there are more buyers than sellers, they fall when there are more sellers than buyers. The willingness to buy or sell is, indeed, partly influenced by individual expectations of future prices, such that for markets to function there has to be heterogeneity of belief. There is nothing at all surprising about that. Predicting the movement of prices is an occult science, whether practiced by 'chartists' who do 'technical analysis' or by punters who pontificate on the market outlook for a particular stock. Interpreting price behaviour (explaining why markets rose or fell) lies somewhere in between, though much of it depends on normative judgments about 'value.' To imagine that you are in an asset-price bubble is to imagine that the current prices of an asset have diverged from some 'rational' judgement of fundamental value.

Tuckett retains that notion of 'rationality', though he attributes it to an uncertain, yet-to-be-experienced 'objective reality' rather than to the price discovery mechanisms of the market. Now he is by no means alone in that, as Behavioural Economics speaks of 'bounded rationality,' but the problem is whether or not any of this can be apprehended ex-ante. Tuckett identifies the 'drowning out' of naysayers as a feature of the euphoria he describes, yet some of these naysayers, like Nouriel Roubini, have successfully predicted ten out of the last three crises, whereas Warren Buffett made an even greater fortune on Berkshire Hathaway's derivatives book, even as he preached about 'weapons of mass destruction.' Some people are hypocrites, others are stereotyped market commentators, and even stopped clocks are right twice a day. It should not be forgotten that the people who made the most money in the Great Financial Crisis were those who shorted subprime mortgages, often against the interests of their own clients. The most successful currency trade

in modern times, the Black Wednesday bear raid organised by Soros, was, in fact, a mean-reversion trade designed to force sterling out of the European Exchange Rate Mechanism. It just took two billion pounds to do it. In other words, the trick about shorting anything is timing it. To echo the line often mis-ascribed to Keynes, 'markets can remain irrational longer than you can remain solvent.'

Tuckett [2] variously declaims any attempts at quantification, though his most recent work aims in that direction by attempting to exploit insights from Big Data [19–23]. Instead, what Tuckett's approach is offering is an interpretative strategy, which serves mostly as an elaboration of the latter stages of the Minsky-Kindleberger model of an asset-price bubble [24], which identifies states of 'displacement, new opportunities, boom, euphoria, dismissal, unease, panic, revulsion' ([2], p. 16). What the Minsky-Kindleberger model describes is not a mechanism of causality but a causal chain. Psychoanalysis, with its roots in Aristotelian casuistry (with the assumption of a relationship, albeit a complex one, between infantile conflicts and adult neuroses), is especially well-suited to such an exercise. Moreover, psychoanalytic theories of causation are also multi-valent. Aristotle identified four cases: material, formal, efficient and final. Freudian psychoanalysis, on the other hand, tends to consider symptoms simultaneously in terms of 'origins, genesis, function, meaning and expectation' ([25], pp. 22-36). For example, your euphoria might well have its genesis in the rising price of a stock (or falling if you shorted it), might have its origins in an outpouring of enthusiasm for a new technology in which the particular firm has an advantage, might be a function of the fact that institutional investors have decided they need exposure to that sector, may mean that firms that rely on older technologies will experience hard times, might have been expected given the success of a similar technology in a more advanced country. None of these interpretations of your euphoria have anything to do with causality in any formal sense (that the number of buyers in the market started to outnumber the number of sellers); but rather this strategy reflects a mode of analysis of narrative causation that is liberating because it disrupts established narratives and opens up the possibilities of new ones. This is why Tuckett eventually became interested in 'conviction narratives', because that seemed to present a means of moving from causation to casuality [20, 22]. Unfortunately, this strategy creates a hermeneutic circle.

As post-structuralist literary critics subsequently noticed, these narratives generally are organised around one of four tropes: metaphor, metonymy, synecdoche, and irony, which correspond to the emplotments of romance, tragedy, comedy/farce and satire [26]. Tuckett's case studies of investment managers do all follow similar trajectories, but figural causation is an artefact of the mimetic function of narrative not a feature of reality [27]. The reason that people have not learned from previous crises is because there is less to learn than some might imagine. To suggest otherwise is to suggest that there is some path dependent group psychological structuring of financial bubbles, such that they all have the same denouement, regardless of the particular asset at their core. To the extent that this is true, it is obvious (and just an elaboration of Minsky-Kindleberger), and to the extent that it is not obvious, it is wrong (in that the focal point of bubbles does matter) for reasons that should become clear in the next two sections.

5. From phantastic objects to *groupfeel*

As Tuckett explains, 'groupfeel' has replaced his earlier usage of 'groupthink' as a way of aggregating the individual emotion states of participants in a market. He is surely correct that groups display elements of 'consensus seeking, group polarisation, out-group stereotyping, and the suppression of dissent' ([2], p. 66-67), but

what becomes harder to understand is why he sees financial markets as ‘groups’ in the sense that a notion of ‘groupfeel’ would apply. Financial markets are nothing if not competitive arenas, and despite the existence of social spaces in which collusion might occur (c.f. LIBOR-fixing), the notion that the market is subject to these dynamics is implausible. Individual firms may be, which is significant only insofar as some bulge-bracket firms become the dominant dealers in particular financial assets. Tuckett is likewise correct that the structure of the industry means individual managers may be more concerned with short-term performance than with longer-term results, but that has nothing to do with phantastic objects and everything to do with how compensation is structured. This is also one of the few areas in which the market does ‘zero-sum,’ as those managers who outperform the market benchmark are richly rewarded in fees, whereas those who underperform benchmarks get sacked. That said, zero-sum games are not especially known for displaying the sorts of group psychologies found elsewhere.

Behavioural Finance, instead, offers ‘herding’ as a heuristic that managers use to main-chase the perceived ‘market leaders.’ This is not necessarily an emotional response (as one might prefer to think oneself smarter than other traders), but rather a rational one of achieving safe but possibly sub-optimal returns. Even so, it is a simplification to suggest that risk-on/risk-off maps to divided states (paranoid-schizoid and depressive positions), unless one assumes that the ‘market norm’ is one of stagnation, which, at least in equities, is discredited by the data presented in **Figure 6**. What Tuckett has, in fact, done is taken a typical risk management heuristic of the directors of trading desks on dealing floors, which is to remove from the floor traders who are losing on a given day and to cap the winnings of those who appear to be ‘streaking’, and used it as a synecdoche for the market as a whole. That interpretative strategy makes very little sense, however, when you consider that the *reason* that the risk manager is pulling the trader is that the frustration and disappointment causes him to exaggerate risk, whereas the success encourages him to underrate risk vis-à-vis the market as a whole. Crucially, in Tuckett’s model, the problem is not the distance between the judgements of individuals and the group, but rather the distance between the phantasies of market participants and his notion of ‘reality’, which can only be apprehended *ex-post*, but seems in fact to be based upon some notion of equilibrium and rationality that hovers behind the precise notions that he and Taffler try to critique [28], hence the hermeneutic circle.

6. Conclusions: financial instability and asset-price bubbles

The final problem with Emotional Finance is the specification of the problem. Financial bubbles are nothing new. One recent work of economic theory written by a former practitioner called them ‘banal’ and ubiquitous [29]. Janeway suggests that problem is not with asset-price bubbles, per se, but rather that some of them are productive whereas others destructive. Asset-price bubbles that focus on ‘general purpose technologies’ or infrastructure (canals, steamships, railways, electrification, information computing technology, etc) tend to be socially beneficial. The rush of speculation generates a tolerance for Schumpeterian waste. Once the music stops, individual firms may go bankrupt, but the roads, canals, bridges, and rail lines remain.

Debt-leveraged bubbles, particularly in real estate, can wipe out private wealth and cause contagion to other aspects of the economy, generating great hardship, but those are usually generated by central banks that use household balance sheets to smooth aggregate demand, as happened in the late 1990s and early 2000s. Tuckett’s analysis makes no distinction on the basis of the focal point of the bubble.

Bubbles are all equally suspect, in that they are formed around ‘phantastic objects’ that promise fool’s gold. Underlying Tuckett’s work is the peculiar fantasy that it is possible to train regulators to identify asset-price bubbles based on their recognition of a kind of prodromal euphoric state as evidenced in the chatter of traders, particularly on the Bloomberg platform. The idea is then to install circuit-breakers, as a kind of market nanny decides ‘enough is enough.’ The problem with this is that it begs the regulatory equivalent of the Texas sharpshooter fallacy, whereby a gunman sprays the side of a barn with a shotgun and only then steps up to draw the bulls-eye. We can only guess at the number of ‘dangerous’ bubbles that will be so averted!

One final point remains to be made. Tuckett calls for a ‘Truth and Reconciliation’ Commission to investigate the financial crisis in the same manner as the Apartheid-era crimes in South Africa. Leaving aside the question of how successful the latter was, the former is hardly worthy of such an intellectual and moral project. The Great Financial Crisis was not the end of the world as we know it, particularly from the vantage point of 2020 when the effects of COVID-19 lockdowns are so much greater. If the Great Financial Crisis was a searing experience for the Millennial generation, it was not because of economic realities, but because of the political responses to the crisis. Austerity policies which produced widening inequality in the developed world are neither ‘necessary evils’ nor the product of the ‘inner logic of capitalism,’ but rather are ideological and political projects pursued with the blessings of the median-voter.

The most dangerous thing about Tuckett’s proposals for ‘minding markets’ is that they de-politicise the regulatory process, putting it in the realm of regulating human emotion, rather than in the sphere of political economy. For Tuckett, based in the United Kingdom, the irony of the financial crisis is that the neo-liberal experiment in ‘light touch’ regulation and low levels of taxation (especially on capital gains) happened under New Labour. The Tories came to power on the back of New Labour’s mistakes, and have followed the ‘tried and true’ strategy of austerity while blaming the ‘pain’ on their predecessors and on the European Union. The electoral calculus of such a strategy produced Brexit. The glee with which the political elite have pursued these aims and the docility of the electorate in the face them is a much worthier target of study via notions like ‘groupfeel’ and ‘phantasies’ that produce master narratives. Rather than minding impersonal markets, we’d do better to mind our own tendency to deny the damage done by those who used the financial crisis to justify policies that they fully intended to pursue anyway. If 9/11 was George Bush’s excuse for invading Iraq, the collapse of Lehman Brothers in its vicissitudes offered the Tories a pretext for dismantling the welfare state. In the era of COVID-19, the main challenge for regulators and central banks alike will be resisting pressure from politicians the world over to encourage bull markets deliberately in order to maintain consumer and investment confidence in the face of damage to the real economy and especially the attendant job losses. In addressing such questions, ‘Emotional Finance’ has little to offer, despite the sense of *Déjà vu* involved.

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Conflict of interest

The author declares no conflict of interest.

Data sources for figures and graphs

Figure 1: <http://www.cboe.com/products/vix-index-volatility/vix-options-and-futures/vix-index/vix-historical-data> (CBOE - Chicago Board Options Exchange).

Figure 2: <http://www.cboe.com/products/vix-index-volatility/volatility-on-etfs/cboe-crude-oil-etf-volatility-index-ovx> (CBOE - Chicago Board Options Exchange); <http://www.cboe.com/products/vix-index-volatility/volatility-on-etfs/cboe-gold-etf-volatility-index-gvz> (CBOE - Chicago Board Options Exchange); <http://www.cboe.com/products/vix-index-volatility/vix-options-and-futures/vix-index/vix-historical-data> (CBOE - Chicago Board Options Exchange).

Figure 3 (a and b): <https://www.investing.com/indices/us-spx-500-historical-data> (Investing.com Historical Data); <https://www.indexmundi.com/commodities/?commodity=crude-oil&months=360> (Index Mundi data archive); <https://usda.library.cornell.edu/concern/publications/k643b116n?locale=en> (USDA Data Library); <https://bsic.it/the-onion-paradox-or-why-futures-are-good-for-the-economy/> (Bocconi Student Investors Club Blog).

Figure 4: <https://appsso.eurostat.ec.europa.eu/nui/setupDownloads.do> (Eurostat Data Archive); <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&1921=survey&1903=11#reqid=19&step=3&isuri=1&1921=survey&1903=11> (BEA, National Data).

Figure 5: <https://www.macrotrends.net/2016/10-year-treasury-bond-rate-yield-chart> (Macrotrends Data Archive); <http://www.cboe.com/products/vix-index-volatility/vix-options-and-futures/vix-index/vix-historical-data> (CBOE - Chicago Board Options Exchange).

Figure 6a: <https://www.statista.com/statistics/1032048/value-us-dollar-since-1640/> (Statista archive); <https://www.macrotrends.net/1333/historical-gold-prices-100-year-chart>; <https://onlygold.com/gold-prices/historical-gold-prices/> (Macrotrends); <https://fred.stlouisfed.org/series/DGS20#0> <https://www.multpl.com/s-p-500-historical-prices/table/by-year> (St Louis Federal Reserve Archive); <https://seekingalpha.com/article/4311451-stocks-bonds-bills-and-inflation-returns-for-94-years-ending-december-2019> (Seeking Alpha Blog).

Figure 6b: <https://finance.yahoo.com/quote/%5EGSPC/history?period1=1325635200&period2=1603238400&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true>; <https://www.officialdata.org/us/stocks/s-p-500/1927?amount=100&endYear=2020> (Yahoo Finance); <https://www.in2013dollars.com/us/inflation/1927#:~:text=In%20other%20words%2C%20%24100%20in,inflation%20rate%20was%20%2D1.69%25> (CPI Inflation Calculator).

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