

AN e-BURST OF INSPIRATION FROM THE BEST BOOKS

Curtis Faith

**TRAINING AND
TRUSTING YOUR
GUT FOR TRADING**



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Training and Trusting Your Gut for Trading

Curtis Faith

One misconception people have about right-brain-dominant people is that they use emotion as the basis for their decision making. They think that somehow these people are relying on a more primitive and therefore inferior process for making decisions. This bias against right-brain-dominant thinking comes from the mistaken belief that right-brain thinking is based on emotions and is therefore somehow less rational than left-brain thinking.

Distinguishing between emotional feelings and intuition that comes from the right brain is often difficult. In English, the word *feeling* is used to describe both concepts: intuitive responses for which no conscious logical basis exists, and the more primitive, purely emotional responses. One reason is that both feelings and intuition make their presence known through the same part of the brain.

Compared with other animals, human beings have an oversized brain. The human brain is much larger as a percentage of body mass than the brain of any other animal. Most of this extra mass is contained in the neocortex. The neocortex is the part of the brain that is responsible for higher-order thinking. It contains most of what makes us smarter than other animals.

Because the neocortex is the source of human intelligence, it is important to note that both the left and right hemispheres are parts of

the same neocortex. Both hemispheres are intelligent and logical at their core.

Top or Bottom?

Nevertheless, it can be easy to confuse the feelings that have an emotional basis with the feelings that have a thinking basis when the right hemisphere performs that thinking. The major reason for this is that the thinking of the left hemisphere is top down and linear, but the thinking of the right hemisphere is bottom up and parallel.

Top-down thinking requires a conscious connection between thoughts, a direction of attention from one connected idea to another. It proceeds in an orderly, linear manner and connects smaller parts in an intentional logical tree. Our attention directs this process so that our thoughts are controlled and proceed in what we think of as a “logical” progression.

Bottom-up thinking does not require a conscious connection of thought—in fact, it does not require any of our attention. Therefore, bottom-up thinking can often appear to be a magical or psychic phenomenon, but it is not. It is as rational as linear top-down thinking. It only *appears* to be magical because the conclusions of the right brain come to us fully formed and seemingly without supporting evidence. However, the evidence is there. It just remains hidden because of the different way in which the right brain processes information—in a bottom-up approach instead of the top-down approach of the left brain.

During the last several decades, scientists have used new technologies to examine the cells of the neocortex, which has helped them understand the brain’s function. They have determined which areas are used for higher thinking and which areas are used for visual and auditory processing; they have mapped virtually the entire brain by function. One surprising result has emerged from this research: The brain’s various functional areas exhibit very little difference in the neocortex

structure. If you examined a small section of the right hemisphere, you would not easily be able to determine where it came from or which hemisphere it was. All but the experts would have trouble pinpointing exactly where a particular section fit into the larger neocortex.

This means that no structural difference exists between the left and right hemispheres. Neuroscientists have found that, in the entire neocortex, the six layers of neurons appear to be interconnected in the same ways, regardless of which area of the brain they examine. Therefore, the logical process the left and right hemispheres use must be more similar than different.

Both hemispheres, and neural networks in general, find patterns and classify information. The difference is the order and reason for the classification. Consider two different leisure activities: assembling a large Lego set into a race car and assembling a large, complex jigsaw puzzle.

In assembling the Lego set, the process is generally *top down*. First, you look at the available pieces to determine the general complexity of the car that you might build from them. Then you determine, based on colors and shapes, which pieces might be appropriate for the various parts of the car. Then you might try to assemble the more difficult parts of the car first—perhaps the wheels or main part of the body and then the fairings and decorative parts later. At each step in the process, you would know what part you were building and why you were working on that part. As you assembled the parts, the race car would take form in clearly delineated stages. This is an example of a top-down process and top-down thinking.

Contrast this with the *bottom-up* way that you assemble a jigsaw puzzle. With a jigsaw puzzle, the most important aspect of the problem is *determining which pieces fit together*. First, you broadly categorize the pieces. Then you separate them into different colors and shapes.

You find the corners and edges, and then you begin to search for the edge pieces that might fit with a particular corner, based on the shape of the edges and the color shade. After finding the pieces that fit with a particular corner, you continue to search for new pieces that match up with the pieces that you just placed next to the corners, continuing this process until you cannot easily find a match. Then you start the same process again at the other corners until you have built the entire frame for the puzzle.

After building the frame, you work on the easiest remaining section. In most puzzles, you know what picture you are assembling, so you can determine what might be easy to assemble based on the drawing itself. Perhaps it is some lines in the picture, or a particular color shade that appears in only a small section. Some puzzle builders prefer not to look at the picture on the box as they are building because they like the challenge of a harder task. These advanced builders are the ultimate in bottom-up puzzle assemblers.

With each section, you reach a point at which finding the pieces that fit becomes more difficult. Generally, this occurs when the shape and color of the piece you are looking for is very common. When you reach such a point, you generally move on to another section of the puzzle, looking again for relatively easy pieces to fit. As the puzzle building proceeds, fewer unmatched pieces remain, making it easier to find pieces that fit a particular spot. That is why *the pace of assembling the puzzle is fast at first*, then slows down as you work on the more difficult sections, and then *speeds up with a final acceleration at the end* when all the pieces quickly come together into one whole picture.

The important contrast between assembling the Lego race car and building a jigsaw puzzle is that, with the Lego race car, you concentrate on *how each piece fits into your overall whole* and whether the parts fit the higher vision. As you proceed, you are consciously aware of what part you are working on and how it fits into the whole.

With the bottom-up approach of building the jigsaw puzzle, what matters during the process of assembly is not how each piece fits into the larger picture you are building, but *how each piece connects to the other pieces and the potential connections that each piece might have*. With the Lego race car, you start with the vision of the car in your head. With the jigsaw puzzle, you start by assembling the pieces that seem to go together most obviously.

The bottom-up thoughts of the right brain sometimes come together in a quick snap, such as during the last stages of a jigsaw puzzle when the pieces all come together. This snap often seems like a feeling or intuition that comes out of nowhere because our left brain is not able to understand how the pieces were assembled in the bottom-up process.

Intuition and Time Pressure

I believe that most left-brain-dominant people have great difficulty trusting their intuition. In these individuals, the left brain is in charge and wants explanations. When the right brain can supply them, the left brain is satisfied. In contrast, if the intuition comes as a feeling, a vibe, or a bodily sensation, left-brain-dominant people have a hard time giving the intuition any credence. The left brain wants explanations; if you can't supply them, it won't believe an intuition. This lack of trust in your intuition can be a big impediment to your ability to improve in your trading.

Even for the most highly left-brain-dominant people, however, there are times when the right brain takes over. According to Professor Gerard Hodgkinson of the Centre for Organisational Strategy, Learning, and Change at Leeds University Business School, "People usually experience true intuition when they are under severe time pressure or in a situation of information overload or acute danger, where conscious analysis of the situation may be difficult or impossible."

This is one of the reasons traders need to train their intuition. If you do not have enough raw experience or you have not supplied your right brain with enough trading examples, you will not be able to accurately and swiftly recognize the patterns that a more experienced trader will see with ease. You will be more likely to encounter problems without any warning from your right brain's intuition. You will be more likely to miss opportunities that an experienced trader will notice without thinking.

Professor Hodgkinson noted that people experience true intuition where conscious analysis of the situation might be difficult or impossible. When you are under severe time pressure, you don't have time to make a conscious analysis. When too much information exists, making a conscious analysis of all the information is impossible. So intuition comes into play when conscious analysis of the information is impossible because of too much information or too little time.

Sometimes the markets become so hectic that you won't have much time to make trading decisions. During a crash or after a big unexpected market event, you might not have time for a full analysis of what to do and why. During these times, if you have trained your gut, you will be able to trust it. You will be able to rely on your intuition to save you from impending danger.

Limbic Ranking and Preferences

The kind of signal you get from a properly trained right brain often comes that way—as a feeling. The limbic system is responsible for these feelings, which are part of its evaluation and preference mechanism. What course or option do you prefer? What kind of food do you want to eat? What color pleases you? What smells bring good thoughts? This same preference and ranking system is often used to rank your preferences based on right-brain thinking that takes place outside of conscious thought.

Sometimes you are inexplicably drawn to something or someone. Or you might find that you have a strong aversion to some object, smell, or person without any conscious explanation. You might say that you got “bad vibes” or “good vibes” from someone or a particular place. Other times, the work of the right brain connects directly to your conscious thought. It generally does this by bringing your attention to some thought or item that your senses have just seen or heard. The right brain performs this activity very well. It observes and notices. Bottom-up thinking often produces observations—fully assembled pieces of thought characterized by causative or associative connections between various phenomena.

You might notice that a particular phenomenon tends to precede another phenomenon. For example, you might notice that the budding of the trees tends to precede the coming of the spring rains. You might notice that a certain coworker tends to come into work late on Friday mornings and that the weekly poker game at his apartment is on Thursday nights. You notice a potential causal connection between the two phenomena.

When trading, you might observe something and note to yourself, “That’s odd. It seems like when there is a vertical run-up in a stock, there is often a gap down right near the top.” These conscious observations are easy to handle. They interface with our linear left-brain thinking quite seamlessly.

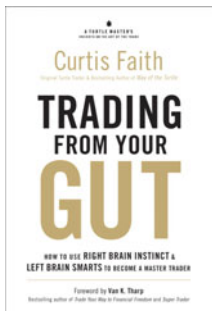
The feelings you get from intuition outside our consciousness are more difficult to handle for left-brain-dominant people who always seek an explanation for their actions and thoughts. They often need to be able to connect the dots between conscious thoughts to make a decision.

Contrast this with the way the very best athletes use their intuition and subconscious to move without making conscious decisions. Sports

legends at the top of their game often talk about moments of “flow” or times when they’re “in the zone.” On these occasions, time seems to slow down and their play seems effortless. Talented players who find moments of flow often have practiced for years, so their motor skills centers and their nervous systems already know how to do what needs to be done to perform well.

Invariably, conscious decision making gets in the way of peak performance. However, the skills gained through years of training can come out if athletes are willing to release control of their bodies to their right brains. When an athlete has trained hard and has played often enough, the right brain already knows what to do. Conscious decision making isn’t necessary; it only slows things down.

These same principles apply to world-class trading. Master traders train and study to educate their right brains so they, too, can have superior instinct and intuition. Because they have an experienced sense of intuition, they know they can trust their gut. This gives them a decided edge when danger comes, or when market opportunities arise that require decisive action.



If you liked this Element, you might like the book by Curtis Faith, *Trading from Your Gut: How to Use Right Brain Instinct & Left Brain Smarts to Become a Master Trader* (ISBN: 978-0-13-704768-0).

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