

# IN THE BLACK

010 QUICK CUTS GET SMART

GET SMART

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### TRADERS' HORMONES EQUAL RISK

Science has found a reason for an age old question: why do markets take so long to rebound from a crisis? The answer is hormones, specifically cortisol.

High levels of cortisol can make traders more risk averse, which in turn delays a market rebounding from a crisis.

Risk aversion has traditionally been considered a stable trait in traders, while markets go up and down as expected. Traders' attitudes to risk should be constant, but a study by researchers at the University of Florida shows that this isn't always the case.

Laboratory experiments have found that cortisol makes mice risk averse, and Professor Lionel Page, lead author of the study, wondered if it had the same effect in humans. Researchers studied the impact of a 68 per cent rise in cortisol levels in the behaviour of 36 participants



as they completed a gambling task over eight days.

"When we raised the cortisol level in the body to the level we found in traders, study participants became significantly more risk averse," says Page. They also found that men placed greater emphasis on small probabilities of risk during this time, which meant they were more risk averse even with a small chance of a big loss.

Page believes that trader physiology should be considered as a source of market instability. "When the market goes down, their stress level goes up, which makes everybody more risk averse," he says. "Then you can have a change in the market which is not just driven by fundamentals, but by the fact that everybody on the trading floor is becoming less willing to take risk."

## THE PICK

What's a great read for business?



**Glen Carlson, global director, Entrevu Training**  
*Become a Key Person of Influence* by Daniel Priestley explains the five soft skills essential for building your brand, commercialising your value and making a name for yourself in your industry.



**Tracy Angwin, Australian Payroll Association** I love the approach Matthew Michalewicz takes to goal setting and success in *Life in Half a Second*. Business advice based on scientific research, not wishful thinking, resonates with me.

## SUCCESS STORY

Insights from *The Bottom Line*.

Matthew Reilly is a prolific author of action thrillers and a recent guest on *The Bottom Line*, a television co-production from CPA Australia and evolution media group. Reilly self-published his first book, *Contest*, in 1996 when he was a teenager. Like any good businessman, he researched the market before launching that first product. Here are three of his key insights:

■ "Once I discovered reading I just devoured books, looking at the patterns and the ways people told stories as novelists. So I looked at what the other authors were doing and then I actually looked at what they were not doing. "What story could I tell that would be

better, faster, bigger?" and so I hit on the idea of *Contest*, my first book."

■ "I take calculated risks. I try to plan out every foreseeable outcome before I take the leap and so when I do take that leap, I'm ready to rock."  
■ "In many ways my life in publishing has been about: you take the knock, you pick yourself up, and you dust yourself off."

Watch *The Bottom Line* on Saturdays at 4pm on Nine Network Australia with upcoming guests including Helen Clark and Mickey Arthur. Australian viewers can catch up on earlier episodes at Nine Network's "Jump-in" at [www.jump-in.com.au](http://www.jump-in.com.au) or for international audiences [www.thebottomlinetv.com.au](http://www.thebottomlinetv.com.au)



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