NEUROINVESTING
Build a New Investing Brain
NeuroInvesting

BUILD A NEW INVESTING BRAIN

Wai-Yee Chen
To the creator of our amazing brain
## Contents

Foreword ix  
Preface xi  
Acknowledgments xv  
About the Author xvii

### PART I  BEING AT EASE  

<table>
<thead>
<tr>
<th>Chapter 1</th>
<th>Money and Me</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>My Money Personality</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>The Big Five Personality Traits</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Money and Me</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Notes</td>
<td>17</td>
</tr>
</tbody>
</table>

### PART II  THE TENSION CAUSED BY IMPULSIVENESS  

<table>
<thead>
<tr>
<th>Chapter 2</th>
<th>Thrills, Ego, and Impulse: Is It Bad? Is It Me?</th>
<th>21</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What Is Impulsiveness?</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>What about Impulse?</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td>Keeping Impulse and Impulsiveness at Tension</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>The Impulse Meter</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>Notes</td>
<td>37</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 3</th>
<th>Impulsiveness and Our Brain: Dopamine and the Reward Network</th>
<th>39</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Impulsiveness and Dopamine</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>Dopamine Neurons</td>
<td>40</td>
</tr>
</tbody>
</table>
Dopamine and the Trader | 41
Dopamine Withdrawal Symptoms | 42
Novelty-Seeking Gene? | 44
Dopamine's Engine Room and Neuronetwork | 45
Notes | 49

Chapter 4  **Beating Impulsiveness** | 51
Taut and Alert | 51
The Effect of Serotonin | 52
The Right Brain Comes to the Rescue | 55
Engaging the Rational Brain | 57
Setting Rules and Sticking to Them | 60
Emotional Pain and Fear | 63
In Conflict | 66
Brain Loop | 67
Be Open | 69
Play Your Own Game | 71
Notes | 71

PART III  **THE TENSION OF FEAR** | 73

Chapter 5  **How Did Fear Get Here? Expectations, Letdowns, and Anxiety** | 75
A Big Expectation | 75
A Clean Slate? | 77
Prevalent Fears | 78
Personal Fears | 88
Notes | 99

Chapter 6  **Are Fears Bad? Fear Takes the Role You Give It** | 101
Passing Up Good, Profitable Opportunities | 101
Buying at the Top | 102
Buying Products with High Yields | 103
Counterproductive Trading | 105
Unnecessary Protections | 106
Fear Incapacitates | 107
Inability to Accept Losses | 110
Fear Causes Brain Freeze | 111
<table>
<thead>
<tr>
<th>Chapter 7</th>
<th>Reacquaint Yourself with Fear: Been Burnt, Done That</th>
<th>115</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Pandora’s Box of Fear</td>
<td>115</td>
</tr>
<tr>
<td></td>
<td>The Engine Room of Fear</td>
<td>116</td>
</tr>
<tr>
<td></td>
<td>The Process of Fear</td>
<td>118</td>
</tr>
<tr>
<td></td>
<td>The Making of Fear Memories</td>
<td>118</td>
</tr>
<tr>
<td></td>
<td>How Real Are Memories?</td>
<td>119</td>
</tr>
<tr>
<td></td>
<td>Recreating Trading Memories</td>
<td>122</td>
</tr>
<tr>
<td></td>
<td>Other Fear Management Techniques</td>
<td>126</td>
</tr>
<tr>
<td></td>
<td>Notes</td>
<td>131</td>
</tr>
</tbody>
</table>

### PART IV

**INSTINCTS HELD IN TENSION**

<table>
<thead>
<tr>
<th>Chapter 8</th>
<th>Emotions and Beliefs: Who Is in Control? What Is Real?</th>
<th>135</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Emotions</td>
<td>135</td>
</tr>
<tr>
<td></td>
<td>What Are Emotions?</td>
<td>136</td>
</tr>
<tr>
<td></td>
<td>The Emotional Neuronetwork</td>
<td>137</td>
</tr>
<tr>
<td></td>
<td>Value of Emotions</td>
<td>138</td>
</tr>
<tr>
<td></td>
<td>Emotional Expression of Goals</td>
<td>141</td>
</tr>
<tr>
<td></td>
<td>Our Beliefs: The Unspoken Goal</td>
<td>144</td>
</tr>
<tr>
<td></td>
<td>Instinct Encapsulates All</td>
<td>148</td>
</tr>
<tr>
<td></td>
<td>Notes</td>
<td>149</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 9</th>
<th>Expressions of Instincts: Are Your Instincts Undervalued?</th>
<th>151</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A Culture of Anti-Instinct</td>
<td>151</td>
</tr>
<tr>
<td></td>
<td>Your Instinct Awaits</td>
<td>153</td>
</tr>
<tr>
<td></td>
<td>Expressing Instincts</td>
<td>154</td>
</tr>
<tr>
<td></td>
<td>The Emotional Brain and Instincts</td>
<td>155</td>
</tr>
<tr>
<td></td>
<td>Instincts in Trading</td>
<td>156</td>
</tr>
<tr>
<td></td>
<td>From Instincts to Mimicry</td>
<td>158</td>
</tr>
<tr>
<td></td>
<td>Mirror Neurons in Trading</td>
<td>160</td>
</tr>
<tr>
<td></td>
<td>The Workings of Mirror Neurons</td>
<td>161</td>
</tr>
<tr>
<td></td>
<td>Practice Instincts</td>
<td>162</td>
</tr>
<tr>
<td></td>
<td>Avoid Instinct Killers</td>
<td>162</td>
</tr>
<tr>
<td></td>
<td>Avoiding Anti-Instincts</td>
<td>173</td>
</tr>
<tr>
<td></td>
<td>Notes</td>
<td>174</td>
</tr>
</tbody>
</table>
Chapter 10  Nurturing Your Skills in NeuroInvesting: What Is Your Mental Personality?  177
How to Be an Excellent Instinctual Investor  177
NeuroInvesting Is a Journey  186
Notes  187

Chapter 11  Summary of the 12 NeuroInvesting Trading Strategies  189
Appendix A  Big Five Inventory Questionnaire (Adapted)  191
Appendix B  Barratt Impulsiveness Scale (Revised)  197
Appendix C  The Maudsley Medical Questionnaire  201
Appendix D  Word Connection List  203
Appendix E  Body Perception Questionnaire  205
Index  213
When I was in college, what really interested me was how people functioned and did things. Why were some people successful and others not? How could success be duplicated? Why did some people think one, while others thought a different way? As a result, I majored in psychology but was very disappointed in what I was taught because the predominant model of the day was behaviorism. This meant that you studied patterns of stimulation and reward to understand behavior. The net result was to develop a set of rules that said “if you did this form of stimulation, you get that sort of response.” I wasn’t impressed applying this theory to laboratory rats. Later, after getting my undergraduate degree, I worked with mentally challenged children and found that it worked even less effectively.

As a result, I decided to get my doctoral degree in biological psychology. I’d get around behaviorism and learn how the brain actually worked. But what I got was more of the same. You stimulate this part of the brain and you get this response. You cut out that part of the brain and you eliminate this sort of behavior. Again, I wasn’t impressed.

My breakthrough came when I began to study neurolinguistic programming (NLP), which I call the science of modeling. It enabled me to model such things as successful trading, how to develop a system to fit you, how to position size to meet your objectives, and even the wealth process. It’s been a fascinating journey.

One of the things that I learned very early from NLP was the presupposition that “the map is not the territory.” What this means is that what goes on inside your head does not necessarily represent what is happening in the world. It’s just a map, and it might not be a good map. For example, you never really trade the markets; you trade your beliefs about the markets. And your beliefs may or may
not be useful. Most traders and investors, especially those who listen to the mainstream media, or go through a financial education, have many nonuseful beliefs. And by nonuseful, I mean that they create problems that wouldn’t otherwise exist. And that doesn’t mean that people who aren’t educated about the markets are much better off, either.

Perhaps you have seen the movie classic *The Matrix*, where the hero, Neo, was given a choice: take the red pill and see the world as it truly is, or take the blue pill and wake up in bed believing whatever he wanted to believe. Of course, Neo takes the red pill, and the adventure begins. Now, what if there were a real matrix and a real red pill? In my book, *Trading Beyond the Matrix*, I put forth the idea that everything is illusion and that what we experience is the programming produced by our beliefs. And when you understand this idea, you can start to reprogram yourself, like Neo, to operate within the matrix at a superhuman level.

The brain is an incredible instrument, but it is also a fabricator of reality. Yet you must interact with the market using your brain. And that’s where Wai-Yee Chen’s book, *NeuroInvesting*, comes into play. You create your reality by using your brain to give meaning, form beliefs, and make judgments.

The market is really billions of ticks of movement in various trading instruments. You try to make sense of it by using a price bar to represent a particular time period in the market—be it a minute or a month of time. But in doing so, you have already simplified reality. This form of simplification often doesn’t make sense to you, so you transform the price bars into various indicators, such as moving averages, or perhaps you try to gather fundamental data and give meaning to that. But in some way, you try to make sense out of the markets.

Ms. Chen’s eighth trading strategy, given in this book, says: Examine the truth of your thoughts and memories. She writes: “What you believe to be true and remember are just that, your beliefs and memories; they must be subservient to universal realities and truths, at least when you are investing.”

Van K. Tharp, Ph.D.
Preface

Investors or not, as humans we have two deep yearnings. We are all born with them and are ruled by them. We can’t seem to escape their grasp. These two deep needs are the need for survival and the need for happiness. In this book I refer to them as the need for more and the need to be more.

Every thought, act, and emotion emanates from these two sources, which may sometimes seem to be opposing each other. If there were a “Bell Curve of Human Needs,” I would put survival and happiness at either end of the curve. As an archer pulls the string of the bow and aims, the tension between these two instincts is the power and strength that gathers within the archer. The tighter the tension between the two ends of the bow, the further the arrow will go, and the more likely that we will achieve our target.

That’s our aim in both life and in investing: to gracefully and confidently handle the tension between the two needs, giving us the precision and the power to get us to the target. The survival instinct drives us to grow more, invest more, make more money, and attain more. Without the tension to keep it going, it weakens and allows disappointment and fear to set in when the “more” we want is not yet achieved or simply the fear of losing them dominates, even when we have attained them. We need the tension to keep us away from this unproductive fear.

The happiness instinct drives us to reach for social significance, career achievements, and to seek value and worth in life. When not at tension, they loosen up into sloppiness and lack of discipline and we are subject to the danger of excessive and impulsive behaviors, addictions, a lopsided value of life, and the traps we boxed ourselves into through seeking happiness.
Life, as in investing, is about maintaining the tension between these two instincts.

Many struggle through life and most do not come close to achieving the success they could have had. But do you know we all instinctually (consciously or not) hold on to and maintain this tension?

The pivot point lies in our brain. Its job is to help us remain in that stance. Be ready to shoot with tension in our bow. Our whole three-in-one brain is made for this role. Its job is in bringing the wide-reaching and well-connected neuronetwork into its service and at its disposal, to be ready to aim for the target, at all times.

Our emotional brain is sophisticated, skillful, and sensitive to who we are. It works with us and is ready to work for us, when we are ready to call upon it.

The problem is that, as investors, we wish to chase undervalued assets, yet we miss this one asset that is most significant and important. Our own emotional brain. If you wish to find an undervalued asset, consider your emotional brain! We should take the time to understand, study, use, and access this one asset more than any stocks, bonds, funds, or instruments that we could ever own. Over time, the more we use our emotional brain and get to know it, the more it will appreciate in value and deliver wealth that is beyond any asset type.

Mapping the NeuroInvesting Manual

This book is a manual for anyone who wants to go on the journey of discovering and appreciating our emotional brain and its rich network and rewards. This is one gift we are endowed with, free of charge. The skill, precision, and power of this gift comes from NeuroInvesting. This is a stimulating journey of discovery, insights, and practical trading strategies.

Part One, Being at Ease: We want to invest while feeling at ease with self and money. We start by examining our Money Personality (Chapter 1). Each of us has a unique Money Personality. We examine how much of that current personality is gene-motivated or influenced by culture, nurturing experiences, or environment, and, most important, whether we can change it. Our Money Personality is put into perspective by learning about the Big Five Personality Traits in discovering which of the five aspects and combinations thereof have a higher tendency in pushing or bringing us toward the three
tensions (divided into three parts of the book) faced by all investors. The Big Five Personality Traits are applied and used throughout the book in case studies and in explaining the behavioral traits of investors (some names and details have been changed to protect the privacy of the subjects). This sets the scene and prepares us for the appreciation and understanding of our emotional brain network.

The following chapters are divided into the three types of tensions in an investor’s bow. We all face these, experience these, and are in desperate need of understanding how to keep them in balance.

Part Two, The Tension from Impulsiveness. Impulsiveness is a symptom of our quest to achieve survival and happiness. Impulsive behaviors from the need to be safe and the seeking of status and value in life loosen the tension of the bow. The loss of tension due to impulsiveness becomes a serious problem as it detracts investors from achieving true goals. This sloppiness in the investor’s bow is caused by a distinct neuronetwork in our emotional brain. Thrills, Ego, and Impulse are the subjects of Chapter 2, which examines the differences between impulsive behaviors and impulse. The former is a behavioral sloppiness while good impulse is an asset we can’t live without. How do we maintain a balance between the two?

Chapter 3 Impulsiveness and Our Brain explains the neuronetwork of impulsiveness. What happens in our brain when we are impulsive? Are we driven to it or are we driven by it?

Chapter 4 is about Beating Impulsiveness. How do we keep the bow string in a state of tension, with impulsiveness under control and meanwhile enhancing our good impulses?

Part Three, The Tension of Fear, is not the kind of fear experienced because of our survival instinct. Instead, these are fears caused by doubt, anxiety, and disappointments that loosen the tension of the bow. Unproductive fear and anxiety is one emotion we need to quell while working at increasing the dosage of the healthy instinctual quick-reacting “fear” that keeps us nimble and safe. How Did Fear Get Here?, the topic of Chapter 5, is an important question that leads us to trace the journey of fear within us. Are they collective or individual fear prints? Will they remain forever or are we able to vanquish them forever or rewire our brains?

Chapter 6 examines the question Are Fears Bad? We need to be convinced of the answer before we can work at keeping fear at the correct state of tension in our lives.
To deal with fear effectively, you need to *Reacquaint Yourself with Fear*, the subject of Chapter 7. We examine the roles memories play in our fears and whether our fears exist only in our own brain. A five-point plan is provided for those ready to take on the task of keeping fear from interfering with our judgments.

*Part Four, Instincts in a State of Tension,* describes the tension we all need to maintain as investors. Our bowstring is at the right tautness, our stance is perfectly positioned for the shot, and our aim is sharpened by our alerted emotional brain. While this skill eludes many, it is readily available for all. What’s most needed is to trust in our most valuable assets, a trust that comes through awareness and practice.

*Chapter 8, Emotions and Beliefs:* These are the two silent and often ignored voices of an investor. How do they affect you? Are your emotions just feelings and are your beliefs truths?

*Chapter 9, Expressions of Instincts:* How does instinct actually work for an investor? What are the “instinct killers”?

*Chapter 10, Nurturing Your Skills in NeuroInvesting:* Keeping the bowstring in a state of tension with impulsiveness, fear, and instincts requires you to take a look at your Mental Personality. How does one pursue the *NeuroInvesting* journey?

Plus, the 12 Trading Strategies for *NeuroInvesting* are positioned throughout the book. As you develop your grip on *NeuroInvesting*, your emotional brain and its rich network will not only be sharpened, but your stance and shots will be more far-reaching and more accurately aimed toward your bull’s-eye, the twin goal of the *more* and *to be more* that we all desire to achieve.

Best wishes on your journey!
Acknowledgments

To the scientists who constantly push the boundaries of research in their discoveries, and pursue a deeper understanding of the intricacies and workings of the brain, I am indebted to your work, which forms the scientific basis of this book. I thank those whose work I have quoted in this book and the many more whom we will continue to read and hear about, who will continue to help all humanity have a greater knowledge of who we are.

My clients, friends, contacts, people whom I have met and spoken to, whose stories I have shared, and your personal experiences, despite them not being your proudest moments. Your generosity in sharing your stories will help others in journeys similar to yours escape the same traps, frustrations, and mental anguish.

And to all those who have journeyed with me in the growth and metamorphosis of my Money and Mental Personality in the last many years.

Thank you.
Wai-Yee Chen is an investment adviser, an educator in finance, and an options and equities trader. Wai-Yee is a regular TV guest commentator for business channels CNBC and SKY, and a coach to fellow advisers and investors.

Qualified as a CPA (Certified Practicing Accountant), Wai-Yee holds degrees in accounting (University of Newcastle, Australia) and a Masters of Applied Finance (Macquarie University, Australia). Her postgraduate qualifications include a diploma in financial planning and derivatives accreditation with the Australian Stock Exchange.

Having worked with and advised many individual investors over the decade and used options as part of her investment menus, Wai-Yee wrote her first book in 2010, *OptionsWise: How to Invest Sensibly*, to have a voice for the use of options as a protective and passive income tool, against the normal connotation of their being aggressive and dangerous.

For her, dealing with clients and investors every day is like being in a scientific lab of human conditions; these experiences and observations have brought Wai-Yee to pursue deeper self-learning in the areas of psychology, philosophy, and neuroscience. She has gained immense practical knowledge from this lab of human conditions, which has provided many an opportunity to experiment and test her hypothesis and theories over the years. Wai-Yee now shares her findings in her new book, *NeuroInvesting*. It leverages off her more than a decade-long experience in trading options and equities, and in advising clients with different personality profiles, psychology, and behavioral traits.

Wai-Yee is currently an investment adviser with Ord Minnett, a premier stockbroking firm in Australia (jointly owned by NYSE-listed
JPMorgan and ASX-listed IOOF) and lives in Sydney with her husband and three children: two girls and a little boy. Her website is www.waiyeechen.com.

Also by Wai-Yee Chen

*OptionsWise: How to Invest Sensibly* (Oex, 2010), www.optionswise.com.au
PART I
BEING AT EASE
“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