Abstract

Unconscious thoughts as a spur and halt on good financial decision making

Richard Fairchild, School of Management, University of Bath, Bath.
William Forbes, School of Business and Management, QMUL, London.

Behavioural finance has, thus far, largely been based on applications of cognitive, conscious finance, often based on evaluation of stylised games, or “framed” choices. Such an example is whether “Linda” is a feminist bank teller based on a few key indicators if her character. The unconscious mind, if mentioned at all, is portrayed as emotional; captured by “phantastic objects”, which threatens to induce the delusion of reality denial. Our paper reviews this portrayal of the unconscious, often associated with Richard Taffler and colleagues, and compares/contrasts it with a far more upbeat assessment of the unconscious by Gerd Gigerenzer and his fellow researchers.

Taffler portrays the unconscious as flighty, and potentially destructive, muse; moving us between a paranoid phase, PS, in a market up, like 1998-1999, and reality acceptance, during a depressive, D, phase, like 2000 or 2009.

Gigerenzer, by contrast, portrays the unconscious as part of everyday “gut-feeling” that guides us through our daily life of waking up our children, changing tube lines on the way to work, etc. Here the unconscious is good because it deploys a range of fast and frugal adaptive heuristics from an “adaptive toolbox” prepared for shifts in the decision-making environment investors face. Thus for Gigerenzer (2007, p.17)

“Logic and related deliberate systems have monopolised Western philosophy of the mind for too long. Yet logic is only one of the many tools the mind can acquire. The mind, in my view, can be seen as an adaptive toolbox with genetically, culturally, and individually created and transmitted rules of thumb.”

We strongly emphasise two themes. Firstly, the degree to which these two strands of literature are unified by a concern with decision-making under uncertainty rather than risk.

Secondly, Gigerenzer and Taffler differ on the normative value of our unconscious lives as investors. For Gigerenzer the unconscious is largely a spur to good investment choices, for Taffler it is largely a halt. Both representations contain their truth. But the degree of truth depends on the investment context. Indeed a central difference between the Taffler and Gigerenzer’s view is that for Taffler the source of problems in financial decision-making are “all in the mind”, with many of the problems arising when our conscious thought is overthrown by unconscious desires. But for Gigerenzer most problems investors face derive from a poor match between their cognition and the context into which it is deployed.