

How Difficult Situations Test Asset Managers

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Never has the world effectively closed down quite so quickly and dramatically as it has done in the last few weeks.

All sorts of people have been impacted in different ways. Here we consider the effect on asset managers. We focus this current environment as well as other extreme conditions that we have seen i.e.: Brexit; extreme investment market dislocations; trade and currency wars; political polarisation and regime changes; Sterling crisis etc.

Some of these issues seem almost insignificant compared to the current crisis. So, what do we see and what can we predict? How do these individuals behave in such an uncertain environment and under extreme pressure?

As part of their typical day-to-day activity, asset managers have to make decisions that have really serious consequences for themselves and others. They are in the business of data collection and analysis, following a conviction, process and philosophy. They need to sort out signal from noise, and most of all not give way to panic.

They have access to a plethora of data which will help them. And both we and they can see (in cold numbers) the consequences of their decisions in the short and long term. Of course, day-to-day activity has been somewhat uprooted and a huge amount of uncertainty has been added to the mix.

The Chinese have two symbols that make up the word *crisis*: they are *danger* and *opportunity* which may simply be thought of as *optimists* who see the current situation as an exciting opportunity vs the *pessimists* who are paralysed in a fearful gloom.

The optimist may see this as a time for correction and change that will be overall desirable, indeed necessary. While the pessimist sees this the end of their lifestyle and workstyle as they know it, with dark clouds ahead.

Optimists

For the optimist, these are indeed exciting times; unprecedented market movements; an ideal time to make a lot of money as shares tumble. Of course, it is all about timing (i.e. how much lower will the share price fall).

Here is when the *careful optimist* is very different from the *impulsive optimist*.

The careful optimist wants to maximise their understanding of what is going on. And they want to look back at times like this: the Wall Street crash, Black Monday etc. What happened and who were the winners: and why? There must be trends, lessons learned from all this. The careful optimist will analyse this data for insights.

But this may be a problem working from home. The data is difficult to get hold of; the systems are slower and prone to break down; and the careful optimist is mindful of the importance of timing.

There are also *impulsive optimists* even in the world of asset management. They are normally cool, rational, and analytical but still prone to gold-rush fever. The excitement means their logic become psycho-logical: all the well-known biases take over: over-confidence, anchoring, confirmation bias.

They have heard stories and indeed read them every day of some firms and individuals capitalising on the crisis and associated turmoil. And they want a piece of the action. They may lose conviction in their philosophy believing this is literally a golden opportunity.

Some optimists also rather like the new working conditions, and some are even brave enough to say so. They argue it is the new way: who needs to schlep into the office?

Pessimists

Those prone to a half-empty glass can seem paralysed by all this sudden change. They see and remember all the bad news; cancelled contracts and meetings, the inability to work in the same way. The markets have gone haywire; the signals are unclear. Their working conditions have changed. Their personal wealth is in free-fall and their job possibly in jeopardy.

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Some pessimists redouble the efforts to try to make sense of all the chaos. This may be difficult with the new work arrangements. The support staff (of all sorts but particularly IT) are not readily available and analysts may not respond immediately.

There are some who see this as the end-of-times: a deep threat to liberal capitalism and a world where 'Big Brother' ramps up his surveillance. And rather than adapt, fight-back and try to pick up the pieces they seem to go "off-line" technically, socially and emotionally.

Optimists and pessimists seem to adopt sharply contrasting tactics for coping with stress. Optimists concentrate on *problem-focused coping* – making and enacting specific plans for dealing with sources of stress. In addition, they seek *social support* – the advice and help of friends and others – and refrain from engaging in other activities until current problems are solved and stress is reduced.

Pessimists tend to adopt rather different strategies, such as giving up in their efforts to reach goals with which stress is interfering, and denying that the stressful events have even occurred. Further, they have different attributional styles: the optimist attributes success internally and failure externally, and vice versa. Indeed, that is how optimism and pessimism are both measured and maintained.

Another individual difference factor that seems to distinguish stress-resistant people from those who are more susceptible to its harmful effects is known as *hardiness*. This term refers to a cluster of characteristics rather than just one. Hardy people seem to differ from others in three respects. They show higher levels of *commitment* – deeper involvement in their jobs and other life activities; *control* – the belief that they can, in fact, influence important events in their lives and the outcomes they experience; and *challenge* – they perceive change as a challenge and an opportunity to grow rather than as a threat to their security.

At Stamford Associates, when we consider how asset managers are coping and indeed how likely they are to deal with stress, we use the above factors as a framework over which we overlay a managers personality traits.

At this time, all of us are clearly feeling the stress of this Covid19-induced situation. This is a time when we all need to be acutely aware of mental health so that we can emerge from this period of uncertainty, however deep and long it should transpire to be, with greater hardiness.

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