



Financial Market Behaviour - Nudges & Networks

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Opening Observations

Classical Economics

The Rational Agent

Behavioural Economics

Challenges this – suggests we are certainly
NOT rational

Complexity Science

Is the answer coming from other disciplines?

My Helpers Today



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Our Sophisticated World



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Or... Is this closer to Reality



Are we all looking at the same data?

Interlinked Global Markets
Benchmarking
Regulatory Convergence
Commoditisation of
Information Systems



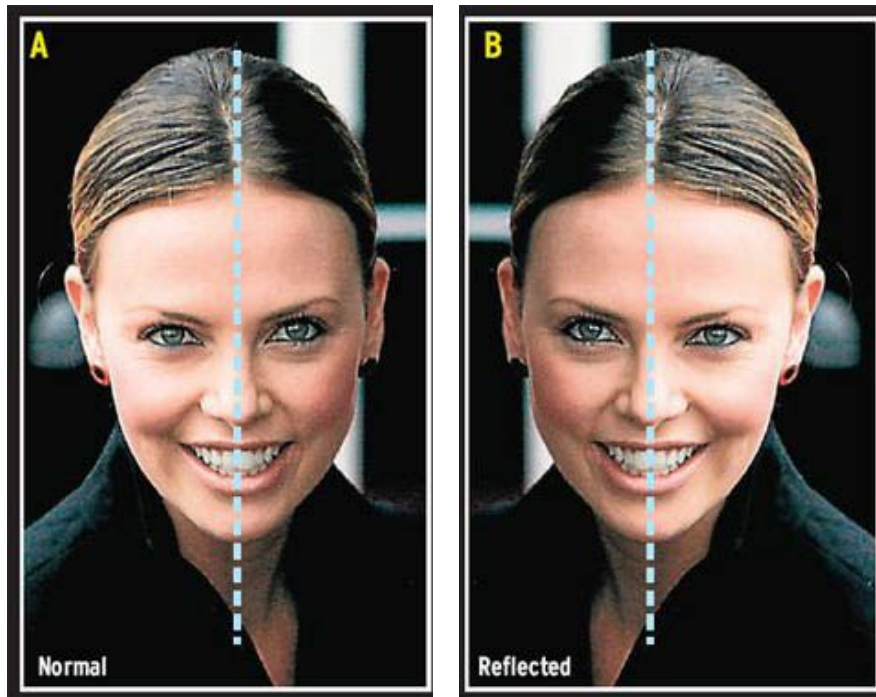
Are we all using the same analysis?

Usage of similar analytics
and systems leading to.....

Similar trading strategies &
investment criteria??



The Risks of Pattern Hunting



Charlize Theron

Beauty
Symmetry
Pattern Finding
Pattern Chasing.....

ST. MAWGAN & CO Little 2007 – Referenced in Article in Sydney Morning Herald 15th Oct 2007

How We Use Patterns

*Cn y rd ths ? Sn't t ncrdbl tht w cn rd ths txt wtht ffrt
? Th hm n brn n dd xclls t p ttrn rcgntr.*

*Did you scceed at riandeg taht txet? How
wdnreuf! Tihs eirsxce dttaeonmsers taht we raed
wlohe wrdos and not evrey sgnile lteter!*

Data & Context

Facts are Strongly Influenced by Context

Context One

A

Context Two

12

13

Fact

13

C

14

The moment at which you see either B or 13 This is the Crucial Tipping Point

[ST. MAWGAN & CO](#) Also What do you think everyone else sees?

Two Factors to Consider

Behavioural Economics

A wide variety of research shows that “agents” are not rational

Be they individuals, organisations or governments

Network Theory

This shows our tastes and preferences can be altered directly by the behaviour of others and can change over time

*These factors are often ignored in
Classical Strategy, Decision Making & Risk Models*

Complexity in Markets

Markets are information networks

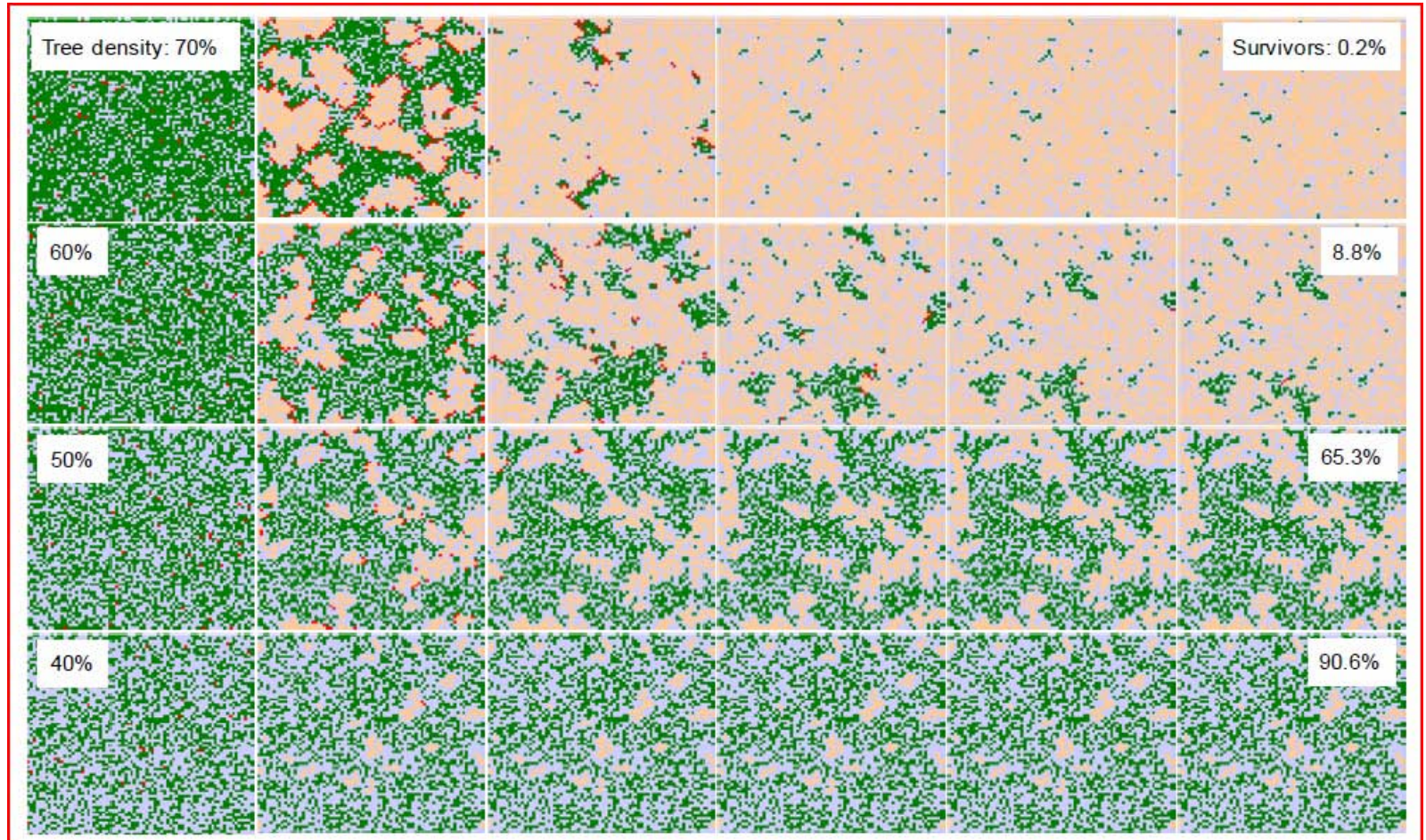
Constantly trying to anticipate the future

Keynes said

“We need to anticipate what the anticipators will do”!

A huge contribution is coming to Financial Markets from
Complexity Science

Forest Fire – Density Model



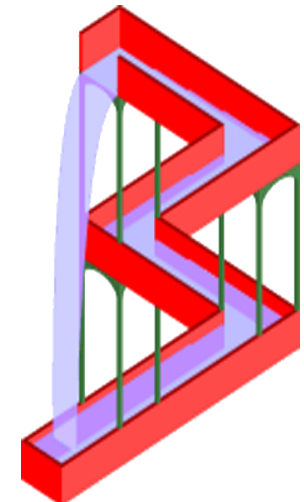
Researching Complexity

Bank of England Papers
(Andrew Haldane)

Nature Magazine – January
2011 article by Lord May

Eric Beinhocker's 2006 book
The Origin of Wealth

Revisiting Market Efficiency –
The Stock Market as a Complex
Adaptive System By Michael
Mauboussin



Some Concluding Points

Market Participants are not so many Robinson Crusoes taking independent autonomous decisions

Pro-Cyclicalities is a dangerous feedback into models

Complexity modelling will be a major element of finance & risk in the next decade



Final Thought...

“Life is not an illogicality;
yet it is a trap for logicians.
It looks just a little more
mathematical and regular
than it is; its exactitude is
obvious, but its in-
exactitude is hidden; its
wildness lies in wait”

G K Chesterton 1874-1936





Thank You
Gerald Ashley
St. Mawgan & Co

