

To Us, that Inkblot Looks Like a Bull Fighting a Bear

Imagine you have lost a large percentage of your portfolio ~ for some of you who are not yet Sigma clients, this should be very easy. You are enraged at your broker, manager or investment adviser. You know you should have had a more disciplined investment process with an adviser you could trust. Experiencing guilt and anger, you want a way to escape responsibility. Below are several examples of what you might say in employing a psychological defense mechanism, followed by a description. See if you recognize some of your friends and relatives.

“Mad at my manager because my account value has been cut in half? I don’t know what you’re talking about.” **Repression** involves forgetting the problem and holding it inside. This is a common and powerful psychological defense in everyday life. In the investment world, a common symptom of repression is your failure to open the monthly brokerage statements or quarterly reviews – in sharp contrast to your tendency to update your net worth with the daily closing quotes when things are going well.

“Oh, I’m not mad at my broker – but my spouse is furious.” **Projection** credits somebody else with the anger and guilt, letting you off the hook. In many ways, this seems healthier than repression, because it pushes the destructive emotions outward, rather than inward.

“No way – I’m not mad at my adviser. There is no real problem anyway. Those Internet stocks are coming back.” **Denial** is the distortion of outside reality, unlike repression, in which the problem is kept inside away from reality. Like repression, this may also be hinted at by not opening your statements – both are ways of keeping the problem and reality separate.

“Upset at my broker? Pardon me, I’m very busy working on my garden – have you seen the size of my zucchini plant this year?” **Sublimation** can be a useful defense mechanism, since disappointment in one area results in achievement in another. Of course, it is going to take a lot of zucchini to get you through retirement....

“Hmmm, I’m really mad at my manager. I’d better clean the garden room so all the tools are exactly lined up on their hooks on the wall.” **Undoing** involves you in an attempt to do penance for a mistake by taking another action, even if it involves something unrelated or obsessive.

“I’ve lost money?! Why can’t my broker just take care of me – that’s all I ask.” **Regression** takes you back to an earlier time, when you were not responsible for anything. This is particularly galling for investors who previously bragged about their prowess at picking stocks.

*Hello, Jung lovers,
wherever you are.*

“I’m very upset at my manager for losing half my portfolio. In fact, I hope she gets a horribly throbbing ingrown toenail impervious to painkillers and gets fired for groaning in agony at her desk. Hey, how about those Yankees?” **Isolation**

recognizes the pain, but separates it from the “normal” emotion.

“OK, I’m mad at my adviser. I’m probably just upset because I should have taken more responsibility for my own account, which is totally understandable and natural.” **Intellectualization** is a way to engage in a more appropriate form of isolation – the “normal” emotion is still separated from the recognition of the pain and upset, but you accomplish this by over-thinking the situation.

“Mad at my broker? I’m mad at my kids – how often do I have to tell them to keep their toys out of the driveway?” **Displacement** transfers the anger to someone or something less intimidating than confronting the actual problem. The driver who cut you off in traffic and gestured angrily at you is probably engaged in displacement. If you fumed about it for two hours, so are you.

“I’m not mad at my manager – my manager is great! I’m going to give him more money now that the market is down.” **Reaction formation** involves convincing yourself of the opposite of the truth as a way of escaping the intolerable. This type of person is highly desirable for the bad investment manager, since the burned client becomes a source of referrals.

See anyone you know? If you think they would benefit from a rational investment process and people they can trust, have them call us at 503-419-3938 or check us on the web at www.sigmainvestment.com. If we made a mistake in describing a defense mechanism or two, well, we don’t know what you’re talking about. Plus, we have been busy making sure the papers on our desks are exactly lined up with the corners. And you cannot possibly realize how dispiriting it is that those toys are still in the driveway

Concept, defense mechanism descriptions and Jung joke based upon the psychology section of *An Incomplete Education* by Judy Jones and William Wilson, Ballantine Books, 1987, pp. 403-405, 424.