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UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

NARRATIVES OF ONLINE TRADING

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CHRISTOPHER LLEWELLYN HOLT

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Supervisor: Dr. L. H. Human

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- To the research participants, for sharing your stories and in so doing, sharing a part of yourselves.

SUMMARY

This narrative research project makes use of a series of memorandums to explore the experiences of two private investors who trade online. Each memorandum was externalised to *Financial Freedom* to allow for the research problem to be objectified.

The research question that was posed to the two participants was, “As a private investor trading for your own account, how do you experience online trading?”

One participant told a story of approaching trading in a very unsystematic manner. Much of the experience he shared dealt with his criticism of systems and his belief that these systems disadvantage people in all spheres of life.

The other participant’s experience involved the importance of structure and knowledge in online trading. He preferred to have absolute control over his money and investments. He felt that knowledge and structure enable him to do this.

The research findings illustrate that every trader’s experience is unique and therefore cannot be generalised, as appears to be done in current literature.

KEY TERMINOLOGY

Forex, trading, narrative, psychology, online trading, investment, behavioural finance, currency, experience, qualitative.

OPSOMMING

Hierdie narratiewe navorsings projek maak gebruik van ‘n reeks memorandums om die ervarings van twee privaat aanlyn beleggers te verken. Ten einde ‘n basis daar te stel vir die navorsings probleem, is beide memorandums geeksternaliseer deur die implementering van die finansiële vryheids konstruk. Die volgende navorsings vraag is aan die twee beleggers gerig: As ‘n privaat belegger wat handel vir jou eie rekening se ontwil, wat is jou ervaring van buitelandse valuta verhandeling.

Een van die deelnemers se storie van buitelandse valuta verhandeling getuig van ‘n grootliks ongestruktureerde metodologie. Baie van sy ervarings is gegrond op sy kritiese uitkyk teenoor sisteme in die lewe as geheel, en sy oortuiging dat die gestruktureerde samelewing basis destruktief is op alle vlakke.

Die ander deelnemer se ervaring getuig van ‘n gestruktureerde, kennis gedrewe storie van buitelandse valuta verhandeling. Sy storie was gegrond op die totale beheer van sy geld en beleggings, en dat die struktuur en kennis hom tot hierdie beheer in staat stel.

Die navorsings bevindings dui daarop dat elke belegger se ervaring van buitelandse valuta verhandeling uniek is, en ondersteun nie die tendens in die literatuur om valuta verhandeling ervarings te veralgemeen nie.

SLEUTEL TERMINELOGIE

Buitelandse valuta, verhandeling, narratief, sielkunde, aanlyn verhandeling, belegging, gedragsgedrewe finansiële perspektiewe, valuta, ervaring, kwalitatief.

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PRE-REFLECTION

"At times like these it is difficult to separate the psychology of the market from the fundamentals behind it and if you don't have character and fortitude to stick to your convictions you will lose a lot of money" (Tyer, 2008, para 10)

Recent months have seen some of the most challenging times for world financial markets since the great depression. This research was inspired by my own curiosity about the role that psychology plays in investment. Having been involved in foreign exchange trading on an amateur level for the past few years, the current economic climate is of particular relevance to me individually and as a master's student in psychology. We are all affected by money, everyday. As psychologists, the people we work with in a therapeutic context are no different. Therefore, I believe it is important for psychologists to acknowledge and allow these stories to emerge when dealing with financial issues in a psychological context. It is my aim with this research project to gain better understanding of how two private investors experience online trading. To achieve this aim, I shall ask them to tell their stories. A part of this journey shall be to complete a master's dissertation for the degree MA (Counselling Psychology); the other part shall be to satisfy my curiosity as an investor.

MEMORANDUM 1

To: FINANCIAL FREEDOM (FF)

Subject: INTRODUCTION

In this memorandum I am going to set the context for the study, which explores how two private investors experience online trading. Online trading is used as part of an investor's strategy to achieve financial freedom. The main areas that will be covered in this introduction are the research problem (in which I will briefly introduce the two stories of investment), the dominant story and the alternative story. I will also introduce technology and trading, in addition to psychology and trading, after which I will conclude the research problem by commenting on the benefit of exploring two online traders' stories. I will then proceed to state the research question and the goals of the research. Lastly, I will describe the structure of the research report comprising future memorandums. The reason for contextualising the study in Memorandum 1 is to introduce the topic and clarify the reader's expectations of future memorandums. I shall now proceed to address the research problem.

Memorandum point 1: Research problem

In this section of Memorandum 1, I shall address the research problem by means of two stories of investment. The reason for introducing the two stories of investment is to contextualise which of the investment stories this research project explores. I shall now commence with the introduction of two different investment stories.

1.1.1. Two stories of investment

I have identified two major stories that exist surrounding the way in which people invest money in an attempt to achieve Financial Freedom. Investment involves strategically placing money in places where it may grow, to such an extent that the investors can live their lives being financially free. Financial freedom can be described as a position in

which the returns on investments exceed an individual's required living expenses (Kiyosaki, 2004). I will refer to the dominant story as 'the institutional investment story' and the alternative story as the 'self investment story'.

I have introduced the two stories of investment which will be explored in this study. I briefly described the meaning of financial freedom and I named the two stories of investment. I shall now address the dominant story of investment, 'the institutional investment story'.

1.1.2. The dominant story – "the institutional investment story"

There are many role players in the dominant story of investment. The major role players are banks, investment houses, insurance companies and the property market. These role players encourage people to trust them with their money to help them become financially free. They spend large amounts of energy and money, marketing the fact that they can facilitate the development along the path to financial freedom. They too would like to reap the rewards of knowing you and thus charge a premium fee for their services.

The dominant story of investment suggests that people set goals (Douglas, 2000; Rotella, 1992) of what they want to accomplish and the financial institutions offer them the services and tools in order for this to be achieved. The individual need not do much more than diligently allocate the agreed amount of money to be invested over a period of time. The rest of the responsibility and control is assumed by the investment institutions who co-construct 'the institutional investment story' (Kiyosaki, 2004).

It seldom happens that people are able to reach financial freedom in a short space of time, but for some there are windfalls, such as the National Lottery. Unfortunately, this only happens for a handful of hopefuls, all striving for the same coveted relationship with financial freedom. These individuals all play a role in the construction of the dominant story which promises, albeit with many conditions and a lifetime of

commitment, that *perhaps*, only at the end of their lives, they might be able to experience financial freedom (Kiyosaki, 2004).

In this section of the memorandum I addressed 'the institutional investment story'. This was done by viewing the nature of the story, its role players and the fact that it takes a long time to be fulfilled. The reason for mentioning it is to illustrate the more common approach to investment that is encouraged by the dominant cultural story. I shall now address the alternative story.

1.1.3. The alternative story – "the self investment story"

The alternative story involves a much smaller group of investors who decide to harness the investment decision-making process themselves, rather than to have a professional take control on their behalf. Investment according to the alternative story includes share trading on the stock market, foreign currency trading (Forex), private venture capital projects and numerous other initiatives in which the responsibility, risk and control are vested primarily with the private investors as individuals (Kiyosaki, 2004).

Private investors are people who to some extent discard the promises made by large financial institutions. Much like the role players in the dominant story, private investors also have to be disciplined in the way they go about investment. In fact, it is safe to say that they perhaps take on more responsibility because of the high level of risk (Steenbarger, 2003) that they often expose themselves to. In order to do so, private investors need to educate themselves about the fundamental and technical aspects[1] of online trading to a degree with which they are comfortable (Kiyosaki, 2004). By assuming responsibility for their own path to financial freedom, these private investors co-construct what I have termed 'the self investment story'.

In an attempt to find statistics indicating how many people subscribe to the alternative story of investment, it became apparent that even if such statistics were available they would not be reliable. This is because firstly they would not be able to indicate for how

[1] Fundamental and technical aspects of online trading are discussed in more detail in Memorandum 2.

long these traders have been active and secondly, whether or not they were actually successful in their endeavours. Also, the majority of the brokering companies who offer individual access to the markets are based outside of South Africa, thus such statistics would be of little benefit to a study such as this located in a South African context (D. Du Toit, personal communication, June 3, 2008).

In the world of finance, high risk can often also mean very high returns (Douglas, 2000). So is it these potentially huge profits that drive the minority group of private investors? The answer to this question will hopefully unfold through the exploration of the stories of two private investors who trade online.

In this section of the memorandum, I addressed 'the self investment story'. This was done by viewing a description of the alternative story, the construction of the story, comments on possible statistics of those involved and the fact that higher risk could mean potentially higher rewards. I shall now address trading and technology in the next section.

1.1.4. Trading and technology

In this section of the memorandum I will address trading and technology. The reason for this is that the internet and computer software is what grants many private investors access to the markets around the world such as the Forex market. This exclusive, private and secure access enables private investors to experience the alternative story of investment. I shall now proceed to address trading and technology.

Trading online is dependent on the use of technology. The alternative story of investment requires that private investors who trade online equip themselves with the appropriate trading tools. These tools are valuable sources of information which may aid the investor's decision-making. This is an important aspect of the alternative story. The internet has opened an avenue for private investors to take responsibility for their own trading activities. A broad range of software packages is available which aid them in this process, from the basic execution of trades to finer acts of analysis, both

technical and fundamental, assisting them in making trading decisions (D. Du Toit, personal communication, June 3, 2008).

I have briefly mentioned trading and technology. Since technology appears to allow private investors to be responsible for their own investments, it perhaps also contributes to their 'isolation' from mainstream approaches to investment. It is thus also an important aspect of the alternative story of investment, hence its inclusion in Memorandum 1. 'The self investment story', with the aid of technology, allows for a unique experience. It is for this reason that I shall now proceed to address psychology and trading in the next section of this memorandum.

1.1.5. Psychology and trading

In this section of the memorandum I shall address psychology and trading. This will be done by means of Rotella's triadic model of trading, in which psychology is a core aspect. Also, I will mention how the trading experience may be influenced by past experiences and the fact that experiences may vary from trader to trader. I shall now proceed to address psychology and trading.

One of the most important, yet least understood, aspects of trading is psychology. It is referred to as the state of mind of the trader in an investment context and how he is involved in the trading process as a whole. Rotella (1992) makes mention of a triadic model of trading. This three-way relationship exists between psychology, the trading method and money management. He further writes that psychology is the crux of trading because the trading method and the money management philosophy used by the trader will be influenced by their psychology and outlook on life (Rotella, 1992).

In other words, much of this influence will come from the various stories in a trader's life and how he has derived meaning from various past experiences, not only trading and investment experiences. Furthermore, beliefs and the way in which data is presented may have an effect on how private investors experience their trading (Rubaltelli, in press).

How psychology influences trading varies from trader to trader, yet it is acknowledged as an essential factor in the investment process (Steenbarger, 2003). The exploration of private investors' stories will hopefully allow some understanding of the role played by psychology in investment.

I have briefly addressed psychology and trading by means of a triadic model which views psychology as an important aspect. This was done because it provides adequate motivation to explore the stories of two private investors who trade online. I shall now proceed to conclude the research problem and describe the structure of my research report.

1.1.6. Concluding the research problem

Many private investors are driven by the alternative story of investment which tells of independence and greater financial gain, but with higher potential risk. Based on their own stories and experiences, the driving factors may differ from one investor to another (Kiyosaki, 2004). It is for this reason that the exploration of two traders' stories provides a feasible opportunity to gain understanding about the contribution psychology makes to online trading (Rotella, 1992).

Memorandum point 2: Research question

The research question for this project was: "How do two private investors experience online trading?"

Memorandum point 3: Goals

1.3.1. General goal

The general goal of this research project was to try and understand how two private investors experience online trading.

1.3.2. Specific goals

The specific goals for the research project were:

1. To do a literature review
2. To describe the research methodology
3. To conduct the research project
4. To write a research report

Memorandum point 4: Structure

The intriguing and sometimes complex issues surrounding the research topic will unfold in further memorandums to come. It is important that one is aware of how the memorandums have been structured and what is to be achieved by engaging in this research project.

In ***Memorandum 1***, I have introduced my research topic and informed the reader about the research question I attempted to answer. In addition to a brief overview of where my interest in the topic originated, I have documented the general and specific goals for the study. Memorandum 1 also gives an overview of what may be expected in later memorandums.

The primary aim of ***Memorandum 2*** was to attempt to answer the research question, "How do two private investors experience online trading?" from literature. In this memorandum, I will report on the literature that I have reviewed surrounding online trading. This includes a history of the foreign exchange market, literature on online trading and literature I encountered which was specifically relevant to the experiences of online traders.

In ***Memorandum 3***, I have described the research methodology. I have given some background about narrative psychology and how it served as a framework for this research project. I have described the contexts relevant to research of this nature and I

have also reported on the process which I followed in working with the research material gathered from two research participants. I have briefly discussed narrative analysis and lastly, commented on the relevance of this project to the fields of behavioural finance[2] and psychology.

Memorandum 4 deals with each participant's story separately. In this memorandum I have shared with you the stories of the participants as I have interpreted them through the process of narrative analysis described in Memorandum 3.

Memorandum 5 is the conclusion of my research report and will be the last of the five memorandums in this research report. In this memorandum, I have briefly revisited the literature review, the stories of the participants and then made some comments on limitations of my study. I have included recommendations for this study by reflecting back on the process and I have noted some recommendations for further research. I have also commented on the implications of this study for psychologists in practice.

In the next section of the research report, Memorandum 2, I have attempted to answer the research question, "How do two private investors experience online trading?" from literature.

Yours faithfully,
The Researcher.

[2] Behavioural finance is the study of the role played by psychology in the world of finance and investment and how people use information to make decisions (Rubaltelli, in press, p. 4).

MEMORANDUM 2

To: FINANCIAL FREEDOM

Subject: LITERATURE REVIEW

In Memorandum 1, the research problem was introduced, the aims of the research were described and the structure of the research report was explained. The aim of Memorandum 2 is to attempt to answer the research question: "How do two private investors experience online trading?" from literature. This process involved the review of literature relevant to the research topic. The review of literature not only allows an attempt to answer the research question, but also aims to provide the reader with information about online trading in general. This will be done firstly by providing a definition of investment and then describing different types of investments. For the purposes of background information, I will comment briefly on the history of the Forex market, how an actual trade works, certain tools used for online trading and the prominent approaches to trading and analysis. Following this, I will discuss psychology and trading by examining topics such as risk, emotions, perception and decision-making in traders. I shall also comment on aspects of successful trading and different types of investors. Finally, this memorandum will be concluded by commenting on the extent to which I have been able to answer the research question: "How do two private investors experience online trading?" I shall now proceed to define the concept of investment.

Memorandum point 1: The definition of investment

The concept of investment can be described as the purchase of a financial product or other item of value with an expectation of a favourable return. In general terms, investment means the use of money to make more money. The aim of investment is to make a profit (Magliolo, 2005; Swannell, 1986).

Having defined the concept of investment, I shall now describe various types of investments. The reason for describing different investments is to situate Forex within the world of investment.

Memorandum point 2: Types of investment

There are various types of investment available to the private investor (Clark-Murphy & Soutar, 2004). Among the more common investment options are cash investments, property, unit trusts, shares and Forex. I shall now describe each of these investment types individually.

Cash investments are usually regarded as low risk and the returns on cash investments, although relatively mediocre, are regarded as being safe and secure. An example of a cash investment would be a savings account held at a financial institution such as a bank. Cash usually earns a fixed interest rate and is generally used as a short-term savings tool, rather than a means of generating profit (Magliolo, 2005).

The buying of ***property*** has, over time, proved to be a good investment for a number of people. The property market experiences periods of slower and accelerated growth in cycles. However, there are fewer periods where a negative return is realised on property investments. Property is generally regarded as a longer term investment (Lee, 2005; Magliolo, 2005).

Unit trusts are usually run and managed by a financial services company or a fund manager. Unit trusts are a way in which the capital of a large number of people can be pooled to invest in stocks (shares), capital and money markets. Unit trusts are generally regarded as longer term investments. The spreading of money across various investment types in a unit trust reduces the overall risk for investors (Magliolo, 2005).

Investors can buy ***shares*** which represent partial ownership in a company. The greater the number of shares an investor has, the greater his/her ownership in the company. Profits from shares can be realised in two ways. Firstly through dividends whereby

investors or shareholders receive a portion of the company's profits proportionate to how many shares they own. Secondly, a profit can be realised when the price of a share increases due to growth in the company. This is known as capital growth and is one of the major reasons why investors buy shares (Lee, 2005; Magliolo, 2003, 2005).

Investing in ***Forex*** involves the buying of a particular currency with the expectation that it will increase in value against another currency. Forex trading involves a very high level of risk and large losses in this market are not uncommon. Conversely, there are also potentially enormous profits that may be realised by Forex traders due to market volatility. The volatility and liquidity of the Forex market allows it to be traded over short or long periods of time (Magliolo, 2005).

Having described various types of investments, I shall now proceed to briefly discuss the history of the Forex market. This will be done to illustrate the origin of the Forex market and how it became available as an investment option in South Africa. I shall also situate Forex within the alternative investment story.

Memorandum point 3: History of the Forex market

2.3.1. The history of the Forex market

The modern Forex market as it is today began to develop in the early 1970's. In the days of the Roman Empire and Egyptians, gold was the accepted medium of exchange, known as the gold standard. This lasted until the early 1900's. The growth in the currency of a country was largely dictated by the amount of gold it could acquire. During World War I, the gold standard was suspended due to interruptions in shipping supplies. As a result, currencies fluctuated significantly between World War I and World War II. Subsequently, the US dollar was the only currency which could be exchanged for gold; this later applied to other countries (Radcliffe, 1994).

The Bretton Woods agreement of 1944 led to the establishment of the International Monetary Fund (IMF). Thereafter, the US dollar was the only gold exchangeable

currency and hence it became the global standard currency. This became problematic due to growing US trade deficits. In 1971, President Nixon suspended the sale and purchase of US gold supplies. In response to this suspension, the world's leading trade nations signed the Smithsonian Agreement, which allowed other currencies to be revalued and move freely from the dollar. This marked the origin of a freely moving currency exchange market (Radcliffe, 1994).

Currently, approximately 1.2 trillion US dollars change hands on a daily basis around the world (Magliolo, 2003). These currencies can thus be traded by various parties, predominantly large banks and also private individual investors. The main factor that influences fluctuations in today's Forex market is supply and demand. All other markets in the world can be considered derivatives of the Forex market, due to its sheer size and liquidity (Radcliffe, 1994).

The above synopsis of the development of foreign exchange on a global level creates the backdrop for a brief explanation of the South African foreign exchange story. I shall now summarise the process that led to the accessibility of the Forex market in South Africa.

The trading of Forex has become progressively more accessible to South Africans since the political changes in the country in 1994. Exchange control regulations on South African residents were in existence before the 1960's (Aron & Muellbauer, 2000). Originating as a consequence of World War II, exchange controls were adopted to protect external economic stability. Britain viewed this as 'Emergency Finance Regulations' and due to South Africa's relationship with Britain at the time, it had no option but to follow suit. The instituted regulations were effective until the early 1990's when political changes in South Africa became the catalyst for considering the liberalisation of exchange controls (Theron, 1998).

The process of South Africa's reintegration into world financial markets post-1994, gave rise to much debate regarding the speed with which exchange controls were to be liberalised. The debates culminated in government opting to follow a gradual, phased

approach (Farrell & Todani, 2004; Magliolo, 2003; Van der Berg, Burger, & Louw, 2007).

The first stage in this process, from March 1995, was the lifting of controls on foreign investors, which resulted in a significant inflow of capital after the presidential election in 1994. The exchange controls on domestic residents of the country were then partially relaxed after 1997 (Aron & Muellbauer, 2000). This had implications for private investors. The initial ruling stated that individuals over the age of 18 and in good standing with the South African tax authorities, were allowed to hold foreign investments limited to R200 000. Subsequently, this limit has been increased and the continuing process of exchange control liberalisation still continues in South Africa (Farrell & Todani, 2004).

2.3.2. Situating Forex in the alternative investment story

Forex trading by private individuals forms part of what was earlier referred to as the self investment story. For those involved, there is the expectation that it may play a role in the development of a relationship with financial freedom. Within this self investment story, the investor is responsible for his/her own investment decisions and somewhat disregards the dominant institutional investment story's proposed benefit of having an expert make the investment decisions (Kiyosaki, 2004; Magliolo, 2005).

Having briefly described the evolution of the Forex market, it is necessary to elaborate on how a trade is actually executed, and also how a private investor may realise profit from making a trade. These concepts are dealt with in the following section, Memorandum point 4.

Memorandum point 4: How a Forex trade works

2.4.1. Profits from upward or downward graphs

The one benefit of currencies being traded in pairs is that profit may be realised regardless of whether the graph is moving up or down. This is because entering a Forex trade essentially means buying and selling currency at the same time. When investors buy shares on the stock market, they do so because they are of the opinion that the stock will increase in value and therefore need an upward movement to make a profit. The fact that Forex trading is based on currency pairs, allows a trader to profit from the correct prediction of value change in either currency in a pair. I shall now explain the concept of profit being made from an upward chart movement. I will use the Euro – US dollar currency pair as an example. This is represented as EUR/USD in Forex trading (Galant & Dolan, 2007).

2.4.2. How the trade is made

I shall now explain how a Forex trade works and how private investors who trade online are able to make a profit.

The online trading of foreign currency involves the buying and selling of one currency in relation to another for profit (Radcliffe, 1994). Currency trading is executed in currency pairs e.g. the Euro/US dollar pair mentioned above. A typical Forex trade would involve speculation as to whether a particular currency will increase or decrease in value. If a trader is of the opinion that it will increase in value, he will buy a 'lot'[3] of that particular currency and then sell it again when it has increased in value. The amount by which the particular currency has increased in value against its 'partner' in the currency pair translates to the amount of profit earned by the trader. The actual amount of profit yielded will be directly proportional to the amount of money that was invested at the opening of the trade position. The larger the sum of money traded, the greater the risk for the investor. However, larger risk may result in higher profits (Galant & Dolan, 2007).

[3] 'Lot' is used in this research report to describe a unit amount of currency or shares that would have to be bought in order to enter a trade position (Radcliffe, 1994). This is often dependent on margin limits and platform-specific margin ratios.

2.4.3. Profit from the upward graph

The Euro is the primary currency in this pair and it is therefore always represented first. In a trade where the trader buys one 'lot' of that currency pair, the implication is that the trader believes the Euro to increase in value against the US dollar. If, for example, the opening price of the trade was 1.300, this would mean that the Euro, at opening, was 1.300 times the value of the dollar. If the value does in fact increase to, for example 1.305, this would mean that the Euro is now five pips[4] stronger against the US dollar, or that the US dollar has weakened five pips against the Euro. This would be an example of a 'buy option' trade in which the trader has essentially bought one lot of Euros in the belief that it would increase in value against the dollar. In order to close the trade, he would then sell his lot and show a profit of five pips. A five pip profit would usually equate to a gain of $50.00 on the investor's trading account (Galant & Dolan, 2007).

2.4.4. Profit from the downward graph

Profit may also be realised from a downward movement in the graph which indicates a decrease in the exchange rate. This is known as a 'sell option' trade. In a sell option trade, everything explained above works in the opposite way. Using the same example of the EUR/USD currency pair; if a trader believes that the value of the Euro is going to decrease against the US dollar, he would sell one lot of that currency pair. By doing this, he is, essentially, buying dollars with the belief that they will increase in value against the Euro in the future. By selling Euros and buying them back at a lower price later, the trader will be able to buy back more Euros for the same amount of money originally invested. Thus a sell option trade is closed by executing a buying instruction (Galant & Dolan, 2007).

I shall now explain an example of the above concept. The same exchange rate mentioned above will be used for this example.

[4] 'Pip' is a term used in this report to refer to the smallest increment of price fluctuation in a currency price. Pips may also be referred to as points. The terms may be used interchangeably (Galant & Dolan, 2007).

The trader sells one lot in the EUR/USD pair. If the exchange rate for the EUR/USD currency pair is at 1.300, let us assume that the exchange rate drops to 1.295. There has once again been a five pip change in the price relationship. Remembering that the trader initially sold a lot to open the trade, at the current lower exchange rate of 1.295 he will be able to buy more currency for the same amount of money which he invested at the opening of the trade. So to close his trade position, he then buys one lot and his profit is reflected by the five pips less which he pays for one lot of the EUR/USD currency pair (Galant & Dolan, 2007).

I have provided a basic explanation of how a Forex trade may be executed. In the above scenarios, significant losses could be incurred if the predictions of the trader were incorrect. This can happen extremely fast due to the volatility of the market. It is therefore important to mention a number of tools used by online traders. These tools assist private investors not only to access the market but also to make more informed trading decisions. I shall now discuss the tools used for online trading.

Memorandum point 5: Tools for online trading

2.5.1. Trading tools

There are numerous software packages available on the internet that act as a gateway to the Forex market. These software packages also provide traders with numerous tools that assist them in making their own investment decisions. These software packages are usually referred to as trading platforms and have functions ranging from price information, records of previous trades and additional functions which assist traders with market analysis (Cheng, 2007; Magliolo, 2005; Uchida, 2006).

In addition to trading software, private investors who trade online are able to access a multitude of books, informative newsletters and online forums (Das, Martinez-Jerez & Tufano, 2005) where trading issues may be discussed. There are also many courses and workshops that a trader may attend in order to improve his Forex trading knowledge and analysis skills. Access to this vast amount of knowledge, thanks to advances in

technology (Oberlechner & Hocking, 2004), does have a potential danger, in that it has been shown to play a role in the development of over-confidence, known as the illusion of knowledge (Uchida, 2006).

2.5.2. How trading tools are made available to traders

Most of these tools are made available to traders via computer and an internet connection; this means that traders can sit at home or anywhere else with an internet connection and speculate market movements for potential profit. Online trading makes access to the markets much easier; it reduces the costs of trading and allows decisions to be made in the trader's own time. Recent years have shown significant advances in the development of new information technologies, and thus the amount and quality of data that is available to private investors has improved immensely (Anderson, 2007; Cheng, 2007; Magliolo, 2005; Rubaltelli, in press; Uchida, 2006).

2.5.3. Trading tools and reducing risk

Trading tools also include functionality that may be used by traders to determine levels of risk and to set limits in terms of potential losses and profit. It is however the responsibility of the private investors to familiarise themselves with how to use these tools and exactly what is meant by the information that they provide. This is one of a few ways in which a private investor is realistically able to reduce the risk of suffering financial losses in the market. The media plays an important role in influencing the way individuals invest, and the furthering of knowledge enables them to reduce the risk of misguiding information (Magliolo, 2005; Tetlock, 2007).

A trader's use of the tools mentioned above essentially culminates in the process of analysing the market in order to make decisions on how and when to trade. In the following section, I shall briefly discuss approaches to trading through the two prominent forms of analysis, namely fundamental analysis and technical analysis.

Memorandum point 6: Trading approaches and analysis

2.6.1. Two approaches to analysis

Apart from the psychological aspect of trading, there are two dominant approaches by which traders decide how and when they are going to invest. The first approach is ***fundamental analysis***, the second is ***technical analysis***. It is not uncommon for online traders to use one approach in isolation, yet often private investors will engage in both approaches in an attempt to make the most profitable trading decisions possible (Magliolo, 2003; Plummer, 1993; Radcliffe, 1994).

2.6.2. Fundamental analysis

The first approach is ***fundamental analysis***. It involves the examination and study of the underlying factors affecting supply and demand in a market. The trader will then attempt to make a predictive decision as to which way the market will move next. This type of trading requires an extensive knowledge of market patterns. One aspect that can make fundamental analysis challenging is the volatile nature of the Forex market. This volatility in the Forex market is what will encourage traders to also familiarise themselves with the second major approach to trading (Oberlechner & Hocking, 2004; Plummer, 1993).

2.6.3. Technical analysis

The second approach commonly used by traders is ***technical analysis***. Pring (1991) describes the art of technical analysis as the early identification of trend changes and then maintaining an investment position until such time as the technical evidence indicates that the trend has reversed. Technical analysis involves a more theoretical approach to trading and the analysis of market related data. This assists the trader in the decision of when to buy into or sell out of the market. There are countless theories and statistical models used in an attempt to calculate and predict with some degree of accuracy which way the markets will move in the short and long-term future. Technical

analysis is generally used more than fundamental analysis by traders of foreign exchange. For the purposes of this study it is not necessary to delve into these technical theories in detail as the research project is focussed on the *experiences* of two private investors who trade online (Douglas, 2000; Magliolo, 2003, 2005; Park & Irwin, 2007; Plummer, 1993; Rotella, 1992).

The preceding sections of this memorandum have discussed general information about online trading. In the next section, I shall discuss psychology and trading. The reason for this is to elaborate on concepts which may have an influence on the experiences of private investors who trade online - the focus of this research. This will be achieved by examining risk, emotions, confidence, sentiment and perception of value and finally decision-making. I shall now proceed to discuss psychology and trading.

Memorandum point 7: Psychology and trading

This research project focuses on experiences of trading and I am, for the remainder of this memorandum, going to report on insight gained, from literature, into various aspects of psychology that may play a role in the experiences of trading. I shall now discuss why it is important to do research on investor behaviour.

2.7.1. The importance of studying investor behaviour

In Memorandum 1, I referred to the work of Rotella (1992) in which he proposed a triadic model of trading. This triadic model consisted of a three-way relationship between psychology, the trading method and money management in which he stated that psychology was the most important, yet least understood aspect. This statement is also consistent with the work of Plummer (1993); this is because psychology influences the trading method and money management because of its role in the philosophy and outlook on life of the trader. According to Maital (in Oberlechner & Hocking, 2004, p. 409), “markets are arrangements where goods, money and real and financial assets change hands. It is vital to remember that the hands are human and are attached to

thinking, feeling heads and bodies". It is for this reason that studying investor behaviour may be viewed as important.

Studies exploring investor behaviour may provide understanding of the various stories in a trader's life. There is currently very little research, of a non-empirical nature, which investigates online traders (Hong, 2007). This may be due to the difficulty associated with accessing such individuals and the confidentiality issues associated with their investment activities (Oberlechner, 2004). There is a notable need for research which contributes to the understanding of traders' preferences and experiences, internal behavioural factors and external factors (Clark-Murphy & Soutar, 2004; Uchida, 2006). This study creates the opportunity to understand how traders derive meaning from their experiences, not only trading and investment experiences, but also experiences outside of the investment context.

According to Altman (2001) and Thaler, Kahneman and Riepe, Shefrin, Shiller and Waeneryd (in Rubaltelli, in press), studying the behaviour and experiences of investors arises from a need to reduce the gap between economic theory, and the actual investor behaviour which does not appear to be close enough to rational principles. It could be argued that, ideally, all trading decisions would be based on rational theoretical principles. While this is not the case, space is created for exploration of the role of psychology in investment-related activities.

This notion was effectively substantiated by Graham and Dodd (in De Bondt, 1998, p. 842) with their comment that:

> …the market is not a weighing machine on which the value of each issue is recorded by an exact and impersonal mechanism – rather – the market is a voting machine, whereon countless individuals register choices which are the product partly of reason and partly of emotion.

The above statement is a clear confirmation of the importance of investors' behaviour and experiences as a consequence to the world of finance and investment. Financial markets are not so much about the reality of economic facts, but more about the

perception and interpretation of those facts by the individuals looking to invest (Oberlechner & Hocking, 2004). Consequently, the field of behavioural finance has the aim of explaining how people use information when making financial decisions from a psychological point of view (Hong, 2007; Rubaltelli, in press; Shiller, 2003).

I have explained why it is important to study the behaviour of investors. I will now proceed to discuss various psychological aspects of trading, starting with a brief review of trading and risk.

2.7.2. Trading and risk

The trading of Forex online enables private investors to be solely responsible for their own investment decisions. These decisions are not necessarily congruent with what common trading theories would advise in such a nebulous market environment. Private investors who trade online *are* perhaps moving away from what conventional trading theories might suggest about achieving financial freedom. The question to ask is why? The institutional investment story informs many individuals in society that in order to gain a partnership with financial freedom, they should be depositing their hard earned money with one of the major banks or investment institutions over a long period of time. Perhaps the potentially higher profits associated with taking higher risks, form part of the motivation behind a private investor choosing to live a part of the self investment story by trading Forex online (Steenbarger, 2003).

Risk is an emotional state which is experienced personally and subjectively by all online traders when making investment decisions. It relates mostly to the possibility and magnitude of deviation from a benchmark performance (Veld, Yulia, & Veld-Merkoulova, 2008).

For most private investors, risk is a concept which is closely related to loss. This loss is defined both objectively and subjectively, being primarily based on facts versus feelings. The consequence of risk and loss being so closely connected in people's experiences gives rise to a serious issue regarding investment risk. The manner in which

an individual has experienced and adapted to loss in the past becomes a major factor in deciding which experiences to avoid or indulge. An investor's appetite for risk or risk-taking behaviour can also be expected to vary with changes in fortune. More emotional attention is paid to experiences involving loss than to experiences involving gain (De Bondt, 1998; Fong & Wyer, 2003; Rubaltelli, in press; Veld, Yulia, & Veld-Merkoulova, 2008).

This experience of risk by investors has a multitude of implications for the decisions that they make. A prominent example of this concept is the manner in which a trader experiences risk and the meaning attributed to it. The meaning derived could make it difficult to sustain a consistent investment strategy. By not maintaining an investment strategy, the objective risk of financial loss becomes ever greater. Ideally, investors should be able to distinguish between experiences of real and emotional losses. This makes them more flexible as investors and improves their adaptability to cope with future experiences of uncertainty (Gurney, 2002).

Private investors' experiences of risk may have an influence on how they will narrate experiences of fortune in the past or present, and how these stories will influence their experiences of risk in the future. Many investors in the face of loss, experiences a panic-like psychological urge to sell themselves out of an investment position without first gaining an understanding of whether the objective risks warrant actions of such nature (Ekholm, 2006; Gurney, 2002; Rotella, 1992; Rubaltelli, in press).

I have discussed trading and risk to provide an understanding of the role these aspects may play in the experience of trading. The section on trading and risk alluded to risk being an emotional state experienced by investors. Therefore, I shall now proceed to discuss trading and emotions in the next section.

2.7.3. Trading and emotions

It is important to consider the emotions experienced by online traders. These emotions are highly complex. Emotions are the human elements which make it difficult for

traders to think rationally about their investment choices. This applies to positive as well as negative emotions. A trader's ability to manage emotions lends itself to more profitable decision-making. The main benefit of understanding emotions better is that maintaining an investment strategy with a cool and collected mind becomes easier which allows traders to potentially capitalise on challenging market conditions (Magliolo, 2005; Peterson, 2007; Steenbarger, 2003).

Emotions are said to serve a very important and specific function. In essence, emotions are used by investors as a way to prevent, or minimise, the pain of loss-incurring financial decisions. They serve to protect the trader's self-esteem and emotional well-being. Emotions are further reported to be a function of the positive or negative feelings that are anticipated by individuals when they make a decision (Barr, 2003; Fong & Wyer, 2003; Moodley, 2007; Plummer, 1993).

This does not mean that investment should be an unemotional experience for online traders. The role of emotions *should* be acknowledged in the investment process. This will equip investors with a form of knowledge enabling them to make better investment decisions. The irony, it seems, is that investment, which is dominated by quantitative data and statistics, may be significantly influenced by a qualitative concept such as emotion. The extent of this influence may be as far-reaching as to change the ending of an individual's investment story (Barr, 2003; Moodley, 2007; Plummer, 2003; Steenbarger, 2003).

To further elaborate; significant losses in the financial arena can very often be attributed not necessarily to poor trading decisions, but rather emotional and attitudinal causes. This phenomenon occurs because any misconception that the investor has is less detrimental than his/her inconsistencies in applying a given decision rule (Dawes in De Bondt, 2003b). The very nature of investment is emotional. In addition, there are very few private investors who actually have sufficient self-knowledge, self-control or emotional stamina to make rational decisions on an ongoing basis. This ultimately means that less profit is made (Gurney, 2002; Peterson, 2007; Rotella, 1992; Steenbarger, 2003).

Emotions such as joy, envy, pride, regret, anger, wishful thinking and over-optimism may also play a role in the decision-making process. Traders are often advised to try and minimise the extent to which they rely on emotions when making financial decisions. Controlling the amount of emotion involved in the investment decision is not an easy concept to master. This is especially true when there is so much potentially resting on the decision that a trader makes (Barr, 2003; De Bondt, 2003a; Glaeser, 2003; Moodley, 2007).

Investors are often prone to making a number of emotional errors regarding their investments. In the following paragraphs, I will mention the main points illustrating the irrationality in some investors' thought processes which may be influenced by emotional stories.

Investors often overestimate their skills and attribute their profits to abilities they don't have. They see order in information or data when in fact it does not exist. This leads to the distortion of other information they may receive in order to give credibility to their decisions. Traders often make predictions based on limited information as if they possess specialised foreknowledge. This results from too much preference being given to a particular investment and makes it difficult to alter long-standing beliefs, even though overwhelming evidence exists to support an alternative. It could be said that investors fall 'in love' with or become emotionally attached to their investments and thus rationalise losses for longer than is prudent (Magliolo, 2005; Plummer, 1993).

When faced with a reasonably certain chance of gain, many investors will become risk averse and are often impatient to sell a good investment and realise their profits. Interestingly, when traders are facing certain loss, their appetite for risk seems to increase dramatically. This contributes to the longer rationalisation of loss mentioned above. Emotionally, investors feel the effects of losses far more than they feel the effects of gaining profit. It seems a distinction is made between money which is made easily and money for which they have had to work hard. This can be partially explained by the notion that trades are often viewed as pieces of paper, or numbers on a screen and not as part ownership of a company or the market. A negative consequence of this view

is that money made easily is often more readily spent or wasted (Ekholm, 2006; Fogel & Berry, 2006; Peterson, 2007; Plummer, 1993).

Investors fall into the trap of becoming obsessed with prices and watching trends, rather than basing decisions on solid data information. Traders often assume that when a market shows a lack of price movement it is indicative of stability. Volatility in the market is viewed as instability. Traders think in extremes where the highly probable is regarded as certainty, and the highly improbable is regarded as impossibility (Shiller, 1999).

Combined with the notion that investors often hold a short-term viewpoint, recent losses make them suspicious and recent market profits cause them to take further action without thinking rationally. This consequence of emotions in traders can perpetuate dangerous trading even further. Investors are often quick to follow the crowd, by placing too much emphasis on the opinions of others and compelling news information (Plummer, 1993).

Having looked at some emotional errors that are made by investors, I have established a foundation to explore a more detailed discussion of confidence, sentiment and perception of value. This will be done to provide the reader with further insight into the experiences of traders and also create another building block towards a discussion of how investors make decisions. I shall now proceed to discuss confidence, sentiment and perception of value.

2.7.4. Confidence, sentiment and perception of value

Significant mention is made of ***self confidence*** as an important element to be considered in research pertaining to private investors. Investors' characteristics and behaviour are said to be based largely on confidence, which is born from experience (Barber & Odean, 2001; Chen, Kim, Nofsinger & Rui, 2007; Lowenstein, 2006; Shiller, 1999). Often, one of the pitfalls of confidence may be the development of over-confidence, which can distort the interpretation of trading information and result in significant losses.

Distortion of information causes over-confidence when investors place more value on the strength (popularity) than the weight (statistical reliability) of the information available. In this study, attention is paid to the role played by confidence in the investors' experiences. This applies not only to confidence in making investment decisions, but also to confidence about a particular investment (Anderson, 2007; Barberis, Schleifer & Vishny, 1998; Campbell, Goodie & Foster, 2004; Cheng, 2007; Dreman, Johnson, MacGregor & Slovic, 2001; Heaney, Foster, Gregor, O'Neill & Wood, 2007; Hong, 2007; Nelson, Bloomfield, Hales & Libby, 2001; Uchida, 2006).

Investor sentiment refers to how investors feel about a particular market or investment. Investor sentiment has been found to be largely dependent on the particular market's performance in the previous one hundred days of trading (De Bondt, 1998). Sentiment is the origin of optimism and pessimism in the investment context and is regarded as highly unpredictable (Barberis et al., 1998). It seems that investors' experiences are significantly influenced by the success with which they are progressing towards the establishment of a relationship with financial freedom. This relates not only to their performance as traders, but also to the performance of the market relative to their own investments. The trend in literature seems to indicate that investors tend to be optimistic during a bull[5] market and, not surprisingly, pessimistic during a bear[6] market, particularly when these sentiments are supported by past performance, market trends and media information (Ammann & Verhofen, 2007; Cheng, 2007; De Bondt, 1998, 2003b; Ji, Zhang & Guo, 2008; Peterson, 2007; Prechter, 2001; Tetlock, 2007).

Investor sentiment has much to do with an investor's perception of value. It is believed that investors' sentiments and preferences seldom remain stable for long periods of time. Many people change their aspirations as a way of justifying outcomes after the actual facts are available (De Bondt, 2002; Peterson, 2007). "It seems that most private investors do not have adequate understanding or powers of reasoning regarding the markets" (Glaeser, 2003, p. 5). Also, there appears to be an inability to conceptualise the market from a holistic point of view (De Bondt, 2003a).

[5] Bull market is used to describe a market showing an upward trend (Magliolo, 2005).
[6] Bear market is used to describe a market showing a downward trend (Magliolo, 2005).

Investors are not sufficiently equipped to make proper use of the statistical models and tools that are proposed by books and other sources of information. It appears that investors' perceptions of value are more dependent on stories that are shared in the media (Oberlechner & Hocking, 2004) and social conversations with friends and acquaintances. In layman's terms, investors are too focussed on the short-term outlook. This statement concurs with the mention of a short-term outlook in the section on emotional errors made by investors (De Bondt, 1998, 2003b; Shiller, 1990).

It seems from the above that confidence, sentiment and perception of value are largely driven by the emotions of investors. Also, it appears that confidence, sentiment and perceptions of value may have significant bearing on the decisions that investors make. It is for this reason that I shall now proceed to discuss investor decision-making in the next section.

2.7.5. Investor decision-making

In discussing some of the emotional constructs that private investors experience in trading, it became apparent that it is important to discuss the concept of decision-making. Although the concept of investment decision-making may not be exclusive to the online trader, the decision-making process is crucial to the journey that individuals embark on in seeking a relationship with financial freedom (Vlaev, Chater & Stewart, 2007). A better understanding of the decision-making process provides further insight into what online traders may experience (Clark-Murphy & Soutar, 2004).

Human beings have fundamental limitations in their abilities to process vast amounts of information (Simon in Wang, Shi & Fan, 2006; Vlaev, Chater, & Stewart, 2007). People normally make their decisions either intuitively or through simplified logic. Ideally, when making important investment decisions, traders will use logic. Intuition is better suited to everyday actions which people do not stop and think about. Logic however, does not always lead a trader to the best decision either; also needed are experience, knowledge and some time to make the best choice (Moodley, 2007).

Generally, traders tend to try and simplify the situations in which they find themselves. Not only do they do this when deciding how or when to invest, but it is present as part of their everyday lives. The theoretical assumption is that traders are constantly swamped, on a daily basis, with masses of data relating to various aspects of their existence. Inherent to their human nature, they only respond to a very small percentage of that data. Essentially, they are trying to simplify the data and create rules of thumb for themselves. The problem with this is that when a trader makes assumptions based on such a small percentage of the data, he/she may arrive at a conclusion that is totally different from the conclusion that would have been suggested by the full scope of information available (De Bondt, 2003b; Ekholm, 2006; Wang, Shi & Fan, 2006).

There exists a potential pitfall to the decision-making process. Across various different situations, the establishment of rules of thumb or shortcuts is regarded as a major factor why individuals make the same mistakes time and again. In psychology, these shortcuts are referred to as ***judgment heuristics***. Heuristics aid investors in everyday life, to manage and simplify what would otherwise be an overwhelming amount of information. In the complex realm of investment, the implication of applying heuristics can be severe (Chen et al., 2007; De Bondt, 2003b; Dreman, 2000; MacGregor, Slovic, Dreman & Berry, 2000; Rubaltelli, in press).

There are a number of heuristical flaws that have been identified in investors. The first is the ***availability*** heuristic. This is the confusion by investors of recent events and those that carry the most emotional weight. The more recent, or the more emotional, an event is for investors, the higher the likelihood of distorted perceptions being created (De Bondt, 2003b; Dreman, 2000; Rubaltelli, in press).

The second heuristical flaw found in investors is the ***representativeness heuristic***. This is described as a statistical process whereby investors believe that two phenomena, say markets, are very similar. Most often the resemblance is highly superficial. This heuristical error could often spell disaster for investors (Chen et al., 2007; De Bondt, 2003b; Dreman, 2000; Shiller, 1999).

There is a third heuristical flaw called ***anchoring***. With anchoring, many investors are using a certain suggestion or situation, usually the present, as their reference point from which to make assessments of potential investments. Furthermore, it is said that the cultural story in which their assessment is anchored may be too narrow (De Bondt, 2003b; Dreman, 2000; Rubaltelli, in press; Shiller, 1999).

The fourth heuristical flaw is ***hindsight bias***. This is evident when investors examine past markets and are easily able to tell whether the market was fairly priced or not. They are looking from a position where they are certain of the outcome anyway. For investors, things often appear very different at the present time than they do in retrospect. The potential danger of this heuristic is that it makes the abandonment of time-tested assessment standards easier, but certainly not profitable (De Bondt, 2003b; Dreman, 2000; Glaeser, 2003).

Heuristics do make the processing of everyday information somewhat easier, however; their potentially negative consequences for the trader are vast. A market such as the Forex market is simply too large, complex and dynamic to be heuristically simplified. Worldwide there are countless different factors that are influencing currency fluctuations several times every day. Human beings do not have the capacity to process all this information through intuitive statistics, and therefore traders are often warned against the oversimplification of information pertaining to their investment decisions (Dreman, 2000).

The above-mentioned judgment heuristics are used by all individuals, not only private investors. It seems that they aid traders in identifying information or trends which are similar to the simplifications they have established. The market is too complex for humans to process in its entirety. This seems to leave private investors no choice but to rely on heuristics for assistance in the decision-making process. It is hard to imagine how trades would ever be executed without some reliance on heuristical evaluation (Dreman, 2000; Ekholm, 2006; Wang, Shi & Fan, 2006).

I have made mention of investors seeking to identify information which is similar to that of their own. Closely related to judgment heuristics is the concept of herd behaviour. It is important to explore this concept as it has significant influence on a large number of traders. I shall now proceed to discuss herd behaviour.

Herd behaviour is the last psychological aspect of investors that shall be discussed. It is commonly referred to as groupthink (Du Bondt, 2003a) by psychologists. A quote by LeBon (in Glaeser, 2003, p. 10) provides insight into this concept:

> …the fact that [people] have been transformed into a group puts them in possession of a sort of collective mind which makes them feel, think, and act in a manner quite different from that in which each individual of them would feel, think, and act were he in a state of isolation.

Herd behaviour among investors is said to be caused by impulsive mental activity in individuals who are responding to the behaviour of others, especially within a particular culture. In certain more primitive life-threatening situations, there may be benefit in herding behaviour. However, it is regarded as highly inappropriate and counterproductive to achieving profitable success in financial markets (De Bondt, Zurstrassen & Arzeni, n.d.; Ekholm, 2006; Glaeser, 2003; Plummer, 1993; Prechter, 2001).

This phenomenon is said to have much influence on the various markets around the world, including the Forex market. The influence of the group's behaviour is very strong on the individual's values, especially when uncertainty plays a major role in the decision context (Ghosh & Ray in Rubaltelli, in press). According to Sornette & Johansen (in Prechter, 2001, p. 124), the term herd behaviour may sound rather animal like, yet its credibility becomes apparent when one realises the extent to which it not only influences market prices, but also causes significant financial loss for investors.

While dealing with the issue of herd behaviour from literature, it provoked some thoughts about the dominant cultural story of investment. Perhaps herding behaviour has an influence on the fact that so many individuals still conform to the 'conventional'

approaches to investing. It may well be this herd behaviour that has prevented alternative stories of investment to be told. There is a notion to support this in that emotions have such a huge influence on the financial markets all over the world (Prechter, 2001).

Individuals gain most of their decision-making information about financial markets from other people, through newspapers, television, and analysts (Plummer, 1993). As mentioned earlier, they often do not bother to confirm any of this information (Dreman, 2000). It is hardly surprising then that errors in decision-making persist for so long (Glaeser, 2003). In support of this view, Janis (in Prechter, 2001, p. 123) stated that, "In general, the greater the number of those in the decision maker's social network who are aware of the decision, the more powerful the incentive to avoid the social *disapproval* that might result from a [decision] reversal".

Essentially, investors commit more money to a bull market when it is rising and less to a bear market when it is falling. Unfortunately this behaviour contradicts what is required to generate healthy profits (Du Bondt, 2003a; Prechter, 2001).

An investor's prediction accuracy of the market worsens when influenced by herding behaviour. The explanation for this being that the valuation of a financial market *is* the result of herding. By predicting market movements based on sentiments of the herd or group, an investor is actually forecasting the present mood of the market and not future events. In this way, the only way an investor could show a reasonable profit would be if the present market mood were to persist, which it usually doesn't. This is a clear indication that investor sentiment and herd behaviour plays an important role not only in the movement of world markets, but also in the outcomes of individual trades executed by private investors (Ciccone, 2003; Du Bondt, 2003a; Glaeser, 2003; Prechter, 2001).

Literature suggests that people have biologically-based psychological sources of unconscious emotional constructs that cause a cooperative interaction of individuals participating in a financial market. If this is the case, it is possible that mass emotional change may be the primary mover of financial markets the world over. This affects tens

of millions of investors and is potentially so powerful it cannot be changed (Dreman, 2000; Prechter, 2001).

The concepts of herd behaviour that have been discussed make it possible to understand why the cold hard facts of fundamental and technical analysis alone often have a limited amount of influence over the investor's decision. It also explains why breaking news and others' opinions can potentially have such a huge impact on the profitability of the stories that private investors may tell (Rubaltelli, in press).

I have discussed various psychological aspects which have an influence on the decision-making of private investors. This was done to provide a deeper understanding of the issues which may affect the experiences of online traders. In the next section I shall explore a number of factors that may distinguish successful from unsuccessful trading. This will be done by looking at successful versus unsuccessful traders, aspects of successful trading, discipline and consistency in trading, monitoring of trades and finally the similarity between traders and psychologists. I shall now proceed to discuss successful versus unsuccessful traders.

Memorandum point 8: Successful versus unsuccessful trading

The question is often asked surrounding what it is that sets apart the successful traders from the unsuccessful ones. Some of the worst traders are lawyers, doctors and CEO's. This eliminates intelligence as the defining factor of a profitable trading story. Some of the best market analysts are unsuccessful traders, which rules out the notion that trading method alone guarantees a positive trading experience. Essentially, any person capable of entering a trade or having "market exposure" (Plummer, 2003, p. 63) on any market may be called a trader, but this does not assure the trader being able to tell a profitable story (Plummer, 1993). One of the major problems faced by a trader is not that he or she has problems, but that he or she is focusing on those problems; consequently traders find themselves being blinded to the potential solutions that may already exist (Douglas, 2000; Rotella, 1992; Steenbarger, 2003).

The mastery of trading rests on the belief that the right frame of mind be learnt and practiced. The attitude and emotional acceptance of decisions made is what sets apart the successful traders from those who tell their stories with a conclusion of losses (Douglas, 2000; Plummer, 1993; Rotella, 1992; Steenbarger, 2003).

Trading success is not determined solely by state-of-the-art trading tools and the intelligence quotient (IQ) of the trader. Often, mention is made of consistency in the trading approach and the fact that an understanding of psychology is needed to ensure this consistency. The key aspects that need to be consistent are preparation, execution, perspective and exit strategies, all aspects which are dominated by the psychology of a trader (De Bondt, 2003b; Magliolo, 2005; Steenbarger, 2003)

It is difficult for traders to maintain discipline and consistency. Many individual traders will enter trades on impulse or on random advice from people they don't really know. Often, this is done without prior planning. One possible explanation for this is that people are unjustifiably optimistic in their personal lives. The opportunities for success in trading are endless. However, it is an environment that exposes the trading individual to some of the most sustained, adverse psychological conditions that an individual can be exposed to (De Bondt, 1998; Douglas, 2000; Dreman, 2000; Glaeser, 2003; Oberlechner, 2004; Peterson, 2007; Plummer, 2003).

A significant number of investors are reported to monitor their trades on a daily, weekly and monthly basis. Only a small percentage of traders are said to monitor their investments on a quarterly or annual basis. Approximately 2% of traders never monitor their investment portfolios. There is a strong correlation between the regularity with which private investors monitor their positions and how often they make trades. The more often investors check up on their positions, the more often they were found to actually make trades and close others. Individuals who regularly monitored their investments were also found to have higher expectations of the investments in which they were involved. Men were found to hold much higher expectations for their investments, monitor investments more regularly and be more over confident than

women (Barber & Odean, 2001; Chen et al., 2007; De Bondt in Mussweiler & Schneller, 2003; Dreman et al., 2001; Heaney et al., 2007; Rubaltelli, in press).

Steenbarger mentions a concept he calls ‘trading from the couch’, which deals with the idea of traders being similar to psychologists in the way that they work with the markets. The underlying assumptions in this approach are that as psychologists, we start off by listening to the stories of our clients to establish what the existing patterns are at that point in time. Most often we tend to wait for ‘change signals’ at which we will direct our questioning for the purposes of facilitating change. These signals do not indicate changes in the person, but changes in the thought processes. In a similar way, a private investor may begin by listening to the story that the market is telling through fundamental and technical analysis. Various factors may illicit changes in the market story, upon which the investor will make a trading decision based on the alternatives which become available as options to the private investor (Steenbarger, 2003).

It is clear that no single factor will result in a trader being successful. This is especially true when one considers consistent success over time. Having discussed the psychology of trading and aspects of successful versus unsuccessful trading, it may be appropriate to explore some models of investors. This will be done for the purpose of sharing a framework which may allow the reader to better understand different types of investors. I shall now proceed to discuss two models of investors in the next section.

Memorandum point 9: Models of investors

In the preceding sections, various psychological and other aspects of private investors and trading have been addressed. From the above, it appears that the experiences of different investors are unique in many ways, with endless combinations of aspects possibly contributing to the understanding of an individual investor. As a result, it becomes feasible to consider a number of models which will allow an understanding of investor types. These types have different characteristics, which determine how investors experience trading.

2.9.1. Research by Keller and Siegrist: Money attitude typology

One example of research that has been done recently in the quest to understand investor types is the work of Keller and Siegrist (2006). The study is based on the use of quantitative data collected from 1569 participants in the form of surveys via mail. The random sample of participants consisted of members of the general population in Switzerland; and there were no criteria set for the targeting of participants. The aim of the research was to indentify segments of investors according to their money attitudes, with specific reference to financial security, investing, obsession with money, interest in financial matters and attitudes towards saving.

The typology that was developed culminated from the results of the surveys. These results are presented in four clusters, each representing a type of investor with certain characteristics. The four types have been named ***Safe players***, ***Open books***, ***Money dummies*** and ***Risk-seekers*** (Keller & Siegrist, 2006). Each type has been summarised below.

- ***Safe players*** place high value on financial security and saving. They are thrifty and carefully consider all financial decisions, both large and small. Their obsession with money is significantly higher than that of the Open books and Money dummies. They are highly self-confident regarding their handling of money and are sceptical about investments involving high risk. They do not enjoy divulging information about their financial affairs.

- ***Open books*** are more willing to divulge information about their financial affairs and have much lower self-confidence regarding their ability to handle money. They tend to have a low affinity for working with their finances. They too, have a negative attitude towards investments which involve high risk. Financial security is of limited importance to them compared to Safe players.

- ***Money dummies*** also have a low affinity for financial matters and they show little interest in finances and investment. Financial security is not of much

importance to them. Their self-confidence may be inflated due to a lack of knowledge and ignorance regarding financial matters; hence they tend to be comfortable with the concept of profiting from investment in financial markets.

- ***Risk-seekers*** show the most positive attitude towards investments which involve higher levels of risk. They are not easily daunted by uncertainty and tend to invest higher sums of money in instruments which potentially offer higher returns. They tend to be the most obsessed with acquiring wealth and the possession of money as life goals. They experience the highest levels of self-confidence regarding investment and place low emphasis on financial security. Risk-seekers also dislike disclosing detailed information about their financial affairs.

Generally, there were very little gender differences in the overall sample. It is noted though, that the Risk-seekers cluster consisted predominantly of men and the Open books cluster consisted mostly of women (Keller & Siegrist, 2006).

The work of Keller and Siegrist (2006) focuses predominantly on attitudes towards money and not behaviour. The model was developed based on information collected from members of the general public; this may have affected the number of participants who could actually be considered active investors. The exploration of attitudes rather than behaviour, culminated in a model which segments 'potential investors' rather than current investors. An investigation of behaviour would perhaps have allowed for a deeper understanding of how investors actually react to different financial situations. The model is highly theoretical and does not give detailed insight into actual trading scenarios. This suggests that research of such a nature would benefit from data being collected from more realistic situations, and not only simulated environments (Nelson et al., 2001).

According to Gunnarsson and Wahlund (1997), the strategies and financial attitudes of investors are connected to their life cycles. This implies that a model of investors would need to be consistent over time. There is no indication suggesting that the work of

Keller and Siegrist (2006) manages to achieve this consistency. This may be due to the fact that their study was done recently (in 2006) and may benefit from further research in the future to investigate consistency over time.

The above-mentioned model was based on a random sample, which nevertheless allowed the authors to establish a valuable model for understanding different types of investors. In the next section, another model shall be discussed, in which research was done with participants who were all members of an investment association.

2.9.2. Research by Clark-Murphy and Soutar: Individual investor preferences

The quantitative research conducted by Clark-Murphy and Soutar (2005) was conducted in Australia. The participants were all members of the Australian Shareholders Association (ASA). The usable sample consisted of 361 survey responses, and the data suggested that subgroups of investors existed with different attitudes and approaches to investment. The sample consisted predominantly of males and the majority of them claimed to be active investors. The researchers established four groups by which to segment the differing characteristics of investor types. The four groups are ***The Explorers***, ***The Risk-averse Investors***, ***The Traders*** and ***The Contrarian Investors*** (Clark-Murphy & Soutar, 2005). Each group has been summarised below.

- ***The Explorers*** (Group 1) place a lot of value on investments which will deliver consistent growth and they have little reverence for the expert opinions of financial professionals. They tend to gain most of their knowledge from people who are known to them, such as friends. They are primarily concerned with capital growth. The Explorers tend be less active investors and do not favour high risk.

- ***The Risk Averse Investors*** (Group 2) constituted the largest portion of the research sample. They prioritise income over capital growth and achieve this through the selection of high quality, low risk investments. They tend to be older females who are self reported to be relatively inactive investors.

- ***The Traders*** (Group 3) place immense value on volatility in their investments and are concerned more with capital gains than deriving income. The Traders tend to be predominantly male and unmarried, and it was found that they usually have had a lifelong interest in investing. They are more actively involved with their investments and show a preference for speculative investment options, involving higher risk.

- ***The Contrarian Investors*** (Group 4) appeared to be least concerned with volatility in their investments. They attribute significant importance to the long-term value of investments. Their investment decisions are not influenced by rumours from friends or significant others and The Contrarian Investors tend to opt for diversity in their investments. Investments are chosen based on sound fundamental aspects and well-grounded theoretical information.

The research of Clark-Murphy and Soutar (2005) is valuable in that it focuses on individuals who were involved in private investing at the time the study was conducted. The above is of particular relevance to this study, focusing on the experiences of private investors who trade online. It appears that this model takes cognizance of specific behaviours rather than attitudes alone. The benefit of such an approach is that behaviours offer the opportunity to explore actual events, rather than offer assumptions about experience based on attitudes of individuals who are 'potential investors' (Keller & Siegrist, 2006; Oberlechner, 2004; Oberlechner & Hocking, 2004).

2.9.3. Other models

The two models mentioned in the previous sections were selected for discussion due to their peer reviewed, academic nature. Much of the information guiding an understanding of investors is contributed by "popular models" (Shiller, 2003, p. 91). In this instance, the academic credentials are challenging to substantiate. It is, however, important to acknowledge such contributions, as they do share certain commonalities in outcome with the strictly academic offerings. In this section, I shall mention three such contributions.

The first example is the ***Barnwell Two-Way Model***. It is regarded as deceptively simple and merely classifies investors as either 'passive' or 'active'. Passive investors are regarded as those who have become wealthy passively. This could be due to inheritance, a professional career or by rather taking risk with the money of others. Security is often more important than risk for passive investors and they usually hold diversified portfolios. Active investors are the individuals who usually have achieved significant wealth throughout their lives. Online traders tend to be more active than other investors and they prefer speculation for capital gains rather than immediate tangible profits. They are accustomed to, and comfortable with the experience of risk through regular exposure to it. Active investors experience a greater need for control and intimate involvement in the technical aspects of investment (Myers, 2007; Uchida, 2006).

The second example is the ***Bailard, Biehl and Kaiser Five-Way Model.*** This model focuses on the level of confidence in investing that the investor experiences. The individual's level of confidence is said to be reflected in the emotional investment choices which are made. The approach states that investors range from *confident* to *anxious* and from *careful* to *impetuous.* Based on these continuums, five investor personalities are proposed i.e. Adventurers, Celebrities, Individualists, Straight Arrows and Guardians (Myers, 2007).

Lastly, ***The Nine Money Personalities*** classification places emphasis on money style and how investors react emotionally to financial decisions. The classification is based on the responses, of approximately 20 000 individual investors, to a questionnaire developed by Gurney. This questionnaire was developed through her experience in private practice as a psychologist. The findings led to the proposal of nine money personalities being Achievers, Entrepreneurs, High Rollers, Hunters, Money Masters, Perfectionists, Producers, Optimists and Safety Players (Gurney in Du Preez, 2005; Myers, 2007).

I have highlighted three other models of a less academic nature. In the next section, I shall comment on the similarities, differences and critique of the models I have mentioned.

2.9.4. Integration

There appear to be ***similarities*** in the work of Keller and Siegrist (2006) and Clark-Murphy and Soutar (2005) in that both studies were conducted from a quantitative approach with the use of surveys. Both studies propose four types of investors with different characteristics. The two models are based on data collected predominantly from men, with much emphasis being placed on self-confidence as a determining factor in the segmentation of the data. It would appear that self-confidence is a prominent consideration in all the models mentioned, both academically grounded and those from a more informal approach. This concurs with commentary by Ekholm (2006), Hong (2007) and Uchida (2006). The concept of risk and how it is handled also seems to be a distinguishing factor in dissemination of investor types. This is evident in the emotional responses of investors, specifically stated in the Bailard, Biehl and Kaiser Five-Way Model (Myers, 2007).

The main ***difference*** between the work of Keller and Siegrist (2006) and Clark-Murphy and Soutar (2005) lies in the demographic characteristics of their participants. Keller and Siegrist (2006) investigated attitudes in members of the general population whereas Clark-Murphy and Soutar (2005) specifically looked at the attitudes *and* behavioural responses of actively involved members of ASA.

A possible shortcoming of the models summarised in 2.9.3 is that there appears to be no clear indication of methodology in the research to substantiate the proposed models. These models do have areas of commonality with the works of Keller and Siegrist (2006) and Clark-Murphy and Soutar (2005); and they offer a contribution to understanding individual investors. Consequently, the importance of the choice of research sample may be emphasised through this example of different approaches to the establishment of portraits of investors. This is particularly important in light of Cheng (2007) noting that potentially negative habits and characteristics of traders can be minimised through trading experience, thus influencing research results.

In this section, I have addressed models of investors. This was achieved by discussing various models, two of which were of an academic, peer reviewed nature. This was done to illustrate how the various psychological aspects of investors may be brought together to provide frameworks for the understanding of different investor types. In the next section, I shall conclude Memorandum 2 by commenting on the meaning attributed to financial freedom and the extent to which it has been possible to answer the research question from literature.

Memorandum point 10: Conclusion

The exploration of literature suggests that experiences of online trading may be unique from one individual to another. These experiences mean different things to different people, and this meaning is influenced by the needs, goals and aspirations of each individual. This has been attributed to the unique way in which individuals experience their lives (Anderson, 2007; Gurney, 1999).

The meaning which people attribute to the self investment story is derived from a broad spectrum of experiences. These experiences have been found to include whether or not an individual owns property, the amount of money available for other investments and the current performance of various markets (Case, Quigley & Shiller, 2005). Financial experiences are in some cases influenced by culture. In every country in the world, there exists a unique array of values and beliefs which inform people's understanding of wealth and financial independence. Culture and religious background are suggested as significant influences in investors' attitudes to money, sometimes more so than education. For most people however, there is a common story line in the aspiration to invest successfully. This common story line relates to a period in investors' lives in which they will have the opportunity to fulfil the needs, goals and aspirations of their greater life stories (Altman, 2001; Chen et al., 2007; Fong & Wyer, 2003; Gurney, 1999; Ji, Zhang & Guo, 2008).

This review of literature has offered a better understanding of the characteristics of private investors who trade online, background information about trading and the multi-faceted world of those who choose to live the self investment story. Some research in

this area does focus on professional investors; however the findings are also applicable to private individuals (Mussweiler & Schneller, 2003). In the models of investors that were reviewed, it was evident that research in this area is predominantly conducted within a quantitative approach. Much research in this area is of an empirical nature and focuses on the performance of traders in a simulated or real environment, rather than their experiences (Hong, 2007). The economic data collected in such a way is not sufficient though, particularly in that it cannot adequately describe and explain human behaviour and experience as it pertains to investment (Jeffrey, 2006). This study aims to understand how two private investors *experience* online trading. Therefore, it can be concluded that the research question could not be satisfactorily answered from literature.

The concept of 'good trader psychology' seems elusive and intangible, particularly if the unique nature of private investors' stories is considered. For this reason, the exploration of private investors' personal stories may contribute to further understanding of their trading experiences. In the next memorandum, I shall describe the theoretical position from which this study was conducted, the research methodology and the process which was followed pertaining to the research material.

Regards,
The Researcher.

MEMORANDUM 3

To: FINANCIAL FREEDOM

Subject: RESEARCH INQUIRY

In the previous memorandum, literature was reviewed in an attempt to answer the research question, "How do two private investors experience online trading?" Various aspects of online trading were explored and it was concluded that the research question could not be satisfactorily answered. In this memorandum, I shall discuss the research methodology for this study. This will firstly clarify the context in which the study was conducted. Secondly, the individuals who participated in the study will be described, in addition to information about me as the researcher. A significant portion of this memorandum will be used to elaborate on the theoretical position from which the study was approached, including the way in which the research material was collected and analysed in order to gain understanding about how two private investors experience online trading. Lastly, the ethical implications of the study will be addressed as well as the relevance of a study of this nature. I shall now begin by discussing the academic context for this study.

Memorandum point 1: The academic context

The Department of Psychology, in the Faculty of Humanities at the University of Pretoria, constitutes the academic context for this research. The primary motivation for conducting this research is in partial fulfilment of the criteria for the completion of the MA (Counselling Psychology) degree. The Department of Psychology also offers postgraduate programmes in clinical psychology and research psychology. It is acceptable to conduct a study such as this within the counselling psychology field because the role of money and the impact it has on people's lives may lead to difficulties (i.e. anxiety, depression) with which a counselling psychologist may be able to facilitate the finding of alternative meaning. The reader is referred back to the pre-reflection of Memorandum 1.

Research in the academic context demands a high level of discipline and attention to detail. It has challenged me to think beyond the face value of research and rather to consider the holistic picture of contributions to knowledge made by different disciplines, sometimes on similar topics. I have come to view research as a conversation held by many the world over, with each new study representing a contribution to the global conversation about a particular topic. Therefore, in order to add my contribution, it is necessary to be aware of and acknowledge a broad spectrum of voices participating in the research discussion.

Having discussed the academic context for this study, I shall now proceed to explain how I, the researcher, fit into the academic context and the training that has prepared me to conduct this research project.

Memorandum point 2: The researcher

I am currently a student in the MA (Counselling Psychology) programme at the University of Pretoria. The MA (Counselling Psychology) programme is based on the researcher-practitioner model, lending itself to the training of future psychologists. This training requires the student to demonstrate the acquisition of skills in independent research and professional practice. The research component of this training requires the completion of a mini dissertation. This entails compiling a research proposal, conducting a research project and the writing of a research report.

In addition to being a postgraduate student in psychology, I have also been interested and involved in online trading for a number of years. This may contribute to the research process in that it allows me a relatively sound understanding of the topic, and the ability to better understand the stories told by the research participants.

The first year of my Masters training (MA 1) involved academic training in fundamentals of Counselling Psychology (Narrative and Systemic Psychology), Career Psychology and Sport Psychology. I was also required to participate in practical training in various contexts, including the world of sport, treatment centres, adventure

experiences and the school environment. It was during this year that I was introduced to narrative psychology and the concept of people constructing meaning from their experiences.

The second year of the programme (MA 2) constituted an internship, which I completed at the Department of Student Support at the University of Pretoria. This was a year of practical work under the supervision and guidance of qualified psychologists. The internship offered the opportunity to practice and refine the knowledge and new skills I had acquired in the MA first year.

Prior to the MA (Counselling Psychology) course, at undergraduate level, I was introduced to research in the field of Psychology through the completion of various assignments. During my Honours degree, this research training was expanded further through exposure to more scientific principles of research, research methodology and a greater understanding of the purpose of research.

I have shared information about myself, the training I have undertaken in psychology and how this fits into the context of the research. I shall now proceed to describe the sampling method employed for this study. The reason for doing this is to highlight how the participants were selected for the research and how this may influence the study.

Memorandum point 3: Sampling method

The sampling method employed for this research project may be called convenience sampling. In convenience sampling, the selection of research participants is done based on the ease with which the researcher can collect data from them and due to their suitability for the study. Convenience sampling also makes research more cost-effective. The decision to use convenience sampling for this study was influenced by the fact that there are not many individuals who actively trade online for their own account. This presented a challenging aspect of the research. For this reason, I approached individuals who I knew were trading Forex online (Bailey, 1982; Flick, 2007; Whitley, 2002).

A disadvantage of convenience sampling is that the research findings culminated from it cannot be generalised to other populations, because the participants were selected from a particular context to begin with. This raises the issue of validity. It is important to acknowledge that there is controversy surrounding the validity of research findings from convenience sampling. This is due to the fact that participants are chosen from a very specific context, thus the researcher should take care not to draw broadly applicable assumptions based on narrowly defined convenience samples (Bailey, 1982; Bless & Higson-Smith, 1995; Whitley, 2002).

I have described the sampling method employed in the research project. It is therefore prudent to provide the reader with information about the two participants who agreed to participate in the study. I shall now elaborate on the participants.

Memorandum point 4: The research participants

The two individuals who participated in this study are private investors who trade for their own account. They do not trade on behalf of other people or financial institutions. Both the research participants are white males, one aged 27 and the other aged 30 at the time the material was collected.

I was personally acquainted with the participants before I embarked on the research project. This contributed to the convenience factor in sampling and made the arrangement of interviews somewhat easier. A challenging aspect of this was the actual interviews. Firstly, it seemed that we were talking differently to the way we did previously and secondly, I acknowledge the fact that my role as a researcher possibly influenced the participants to tell stories which they thought I needed to hear.

Having established the context for the study and elaborated on the participants and how they were sampled, I shall now proceed to discuss the theoretical position from which the study was conducted. This will be done to provide the reader with understanding of the methodology employed and the theoretical concepts underpinning this methodology.

I shall begin discussing the research position by commenting on the classification of research.

Memorandum point 5: Research position

3.5.1 Classification of research

Research can be classified as either quantitative or qualitative. The choice of approach to use for a study rests with the researcher, and is usually a reflection of the researcher's philosophical view of science. Quantitative research is based on numerical information, such as quantity, frequency and scores on a test. Quantitative research material is assigned numerical properties which may be processed and manipulated for the purpose of reporting findings. Within this approach, the researcher attempts to identify cause-and-effect relationships in the material, maintaining objectivity through being psychologically and emotionally distanced from the research (Whitley, 2002).

This research project may be classified as a qualitative study. The research material collected for this study was in the form of stories told by the participants and cannot be manipulated by use of numbers and statistics. Qualitative researchers focus on understanding the way in which people experience and interpret their lives. There are various approaches available to the qualitative researcher. These include ethnography, phenomenology, grounded theory, discourse analysis and narrative analysis (Smith, 2008). Qualitative research may evolve and change as the research situation changes. Qualitative data is generally open-ended and the researcher is an integral part of the research process. The researcher's experiences are also regarded as valuable data to be considered (Bailey, 1982; Bless & Higson-Smith, 1995; Whitley, 2002).

I have chosen to follow the narrative approach since this study attempts to understand how the participants make sense of their trading experiences (Crossley, 2007a). I shall now discuss the narrative approach by elaborating on topics such as narrative, experience, history and culture.

3.5.2 Narrative

The narrative metaphor is the guiding framework for this research project. “Narratives are storied ways of knowing and communicating” (Jupp, 2006, p. 186), and are a way in which people are able to make sense of and understand their lives (Freedman & Combs, 1996; Gillies & Neimeyer, 2006; May, 2002; Morgan, 2000; Weingarten, 1998; White & Epston, 1990). Stories play an important role in the construction of identity, which for narrative psychology is paramount, as it is predominantly focused on the exploration of the self and identity related issues (Crossley, 2007a).

People tell stories in various different ways, on a daily basis. This approach is suited to this study because the participants have been asked to tell stories about their experiences of online trading in a culture which is dominated by property and cash. Previously, I referred to this as the institutional investment story. Narrative provides an opportunity for the participants to tell their stories of self investment. It is through the telling and interpretation of stories that individuals are continuously able to construct meaning from their experiences. These stories are then said to become their ‘truths’ (Corey, 2005; White & Epston, 1990).

3.5.3 Experience

The narrative framework places a great deal of emphasis on the lived experiences of people. People are able to have experiences because they are embodied, meaning they have physiology and anatomy which makes lived experience possible (Crossley, 2007b; Human, 2005). Their realities are then shaped by the construction of interpretations of their unique perceptual and sensory realities (Monk, 1997; White & Epston, 1990). All human beings have a vast number of experiences every day. They only choose to tell stories about some of these experiences. The outcome is that they do not give a full account of our experiences. White and Epston (1990) would concur with this, noting that there always remain some experiences which are not fully accounted for in the dominant story that an individual may tell.

3.5.4 Experience and narrative

Having elaborated on the concept of experience, experience and narrative may now be discussed together. According to Rodriguez (2002), we are all beings in the world; we experience it, experience ourselves in it and then tell stories of those experiences. Stories are devices that people use to interpret and understand themselves (Lawler, 2002; May, 2002).

Bruner (1991) proposes that stories are a version of reality. The acceptability of these stories is governed by what he calls “narrative necessity” (Bruner, 1991, p. 4), rather than the verification of empirical facts. Peoples’ experiences are often framed by constructionist theories because they are said to live in stories and not in statistical evaluation (Gilbert, 2002). People interpret and derive meaning from their experiences by telling them or ‘storying’ them.

Narrative can be understood as a means for people to understand and interpret their experiences. This impacts their lives, cultures and society at large (Berger, 1997; Richardson, 1990; Riessman, 1993; White & Epston, 1990). Research involving the exploration of stories that people produce is interpretative in nature. Such research involves trying to understand which events people included in a story and how they have interpreted these events. The focus is on the significance of the events in an individual’s life, not merely on what happened in the story (White in May, 2002).

As the researcher in this qualitative project, I am the receiver of the storied message told by the participants - two private investors who trade online. This constitutes a challenging aspect of qualitative research in that only the story, as it is told, may be worked with and interpreted (Riessman, 1993).

Of these many experiences, only some are regarded as meaningful in the process of telling, thus highlighting what can be identified as the dominant stories in people’s lives. An awareness of exceptions to dominant stories leads to the telling of alternate stories, or other lived experiences (Freedman & Combs, 1996; Morgan, 2000;

Weingarten, 1998; White & Epston, 1990). People tend to be selective about which stories they tell and, as a researcher, one is not in a position to label the stories told by others as true or false (Bruner, 1991).

3.5.5 Experience, narrative and history

Stories have a sense of history. The influence of history shapes people's stories of the present and future (May, 2002). When individuals tell stories, history is employed as a means of sequencing past events and acknowledging the anticipated roles of future events. This contributes to the understanding gained about their lives through the telling of experience. The well-formed story is said to be one in which the characters possess a coherent identity across time, one that aids the writing and rewriting of identity (Gergen, 1998; Roberts, 2004).

Stories allow for the organisation of information over time (Fivush, 1998; Lawler, 2002). This enables the construction of coherent, subjective memories. People are continuously producing and reproducing stories of their experiences based on memories. During the course of these stories, the past is interpreted through the metaphorical lens of societal information. People are thus able to understand themselves through history and the meaning derived through the interpretation of lived experience is influenced by the past and the future. This suggests that, if they are interpreting the present historically, the past influences the telling of a story in the present (Freedman & Combs, 1996; Human, 2005; May, 2002; Morgan, 2000; White & Epston, 1990).

3.5.6 Experience, narrative and culture

Culture also has an influence on the stories that people tell. The lived experiences that people choose to tell and the way that they choose to tell them, are situated in certain social contexts. These social contexts constitute what may be understood as culture. Culture is said to significantly influence the way in which people see and feel about the world. Individuals tell stories which allow them to make sense of experiences. These stories are predominantly dictated by culture and history. It may thus be argued that past

and future are melted into a storied experience of the present, an experience largely influenced by the cultural background of the individual (Bruner, 2004; Crossley, 2000; Patton, 2002; Sclater, 2003; White & Epston, 1990)

The stories that people tell construct 'ways of being' or cultural stories. In certain social contexts these stories become dominant 'ways of being' or dominant cultural stories. Cultural stories are the systems of statements that are used to construct objects (Parker in Burr, 1995).

Narrative is "…a discourse structure or genre which reflects culture. It is a central medium of cultural expression, organization and learning. Furthermore it also creates cultural contexts" (Cortazzi, 1993, p. 58). Cultural stories are largely responsible for the way that we understand our own lives and the worlds that we live in (Brokensha, 2003). Further understanding of cultural stories is gained from Hare-Mustin (in Freedman & Combs, 1996, p. 42) as "a system of statements, practices, and institutional structures that share common values".

I have discussed the research position. As it pertains to this study, I shall now comment on the process which was followed in dealing with the research material produced for the project.

Memorandum point 6: The research material

The following process was followed pertaining to the research material (Riessman, 1993):

Telling: Two methods of telling were employed.

In the first method of telling, participants were asked to write letters in response to the question, "As a private investor trading online for your own account, how do you experience online trading?" The participants were then asked to send these

letters to me via e-mail. The use of e-mail was convenient in that it enabled the letters to be worked with in electronic format during analysis. Upon receipt of the letters, I received supervision on the reading of these letters which served as a guide for the unstructured interviewing process. The reason for this approach is due to my inexperience working from a narrative position, which created a need to first analyse letters in preparation for conducting the interviews.

The second method of telling was an unstructured interview. The interviews were of an exploratory nature, further exploring the stories that were constructed in the letters. During this phase, I had to be aware that whenever people are telling their stories, they are continuously evaluating their narrations and the impact that they may be having on the listener. They are not merely conveying a descriptive, streamed sequence of events (Cortazzi, 1993; Riessman, 1993).

The interviews were recorded on a digital audio recorder. The interview with Participant A was conducted at his office in Pretoria and the interview with Participant B was recorded at his home, also in Pretoria. The interview question was: “As a private investor trading online for your own account, how do you experience online trading?” After the completion of the interviews, it was agreed with the participants that they would be contacted by e-mail if I had any further questions regarding their stories.

Transcription:

The next phase in the material collection process was to transcribe all the interviews that were recorded on digital audio. This created an opportunity to familiarise myself with the material and make printed hard copies of the transcriptions.

Having the transcriptions in hard copy also made the material easier to work with when repeated analysis became necessary in the search for meaning in the research material.

Analyse:

The research material was analysed by means of narrative analysis. This is an inductive reading of the material and offers insight "into the motivation and purpose behind a chain of events" (Sparkes, 1999, p. 23). The analysis of stories is important in that they do not have merit in an unanalysed form, when used as material in qualitative research they require interpretation (Jupp, 2006). The primary aim is to understand how history and culture were employed by the participants to construct stories of how they experience online trading.

Stories can serve a number of purposes; to remember experiences, to argue an issue and to convince, engage, or entertain the listener (Bamberg & McCabe in Riessman, 2000). This is achieved through sequence and consequence, whereby "events are selected, organized, connected and evaluated as meaningful for a particular audience" (Jupp, 2006, p. 186).

The central idea of narrative analysis is that stories offer the researcher insight into the historical, cultural and social meaning attributed to experience (Lieblich, Tuval-Mashiach & Zilber, 1998; Patton, 2002). Narrative analysis gives researchers the opportunity to inform the conduct, interpretation and presentation of interview talk (Kearns, Rosenberg & Wiles, 2004) and to engage with the embodied, subjective experiences of people (Sparkes, 1999). One of the main areas of focus is to investigate the story itself, as this is the primary object of investigation during narrative analysis (Riessman, 2000).

Of particular interest was firstly, *how* the participants talked about and evaluated their experiences and secondly, how they had positioned themselves in the stories (Kearns, Rosenberg & Wiles, 2004).

The work of Riessman (2000) played an important role in guiding me through this process of narrative analysis in the sense that objectivity was not my primary concern, but rather an awareness of positionality and subjectivity. By doing this, it was possible to include my own perspectives as researcher/analyst as well as those perspectives of the storyteller. This awareness of the researcher's role in the process was paramount because the stories I selected for analysis would be strongly informed by my own cultural and historical identity as an individual (Bruner, 2004; Larner, 1998). It is also important to understand the changing meaning of events for the individuals involved, rather than the verification of 'truth' (Riessman, 2000), and how these in turn have been shaped by history and culture.

Write:

The writing phase of the research involved writing this research report, consisting of five memorandums. The purpose of this was to describe the project and report on the research findings.

Narrative researchers must be conscious of the end of a study from the outset, particularly in the writing phase. This is because various different writings, such as parts of a participant's transcription, will form the final text. In narrative research, through discussion with participants, material collection sometimes continues throughout the entire writing of the final narrative text (Clandinin & Connelly, 1990, 2000).

Reflect: In the memorandums discussing the stories of the participants and the concluding memorandum, a reflection has been included, noting the influence that the participants' stories have had on me and on the research process.

I have considered the process followed pertaining to the research material for the study. In addition to this process, it is important to conduct research within important ethical boundaries. These ethical considerations will be mentioned in the next section.

Memorandum point 7: Ethical considerations

The academic context of this research project, the University of Pretoria, has strict ethical guidelines that must be adhered to in order to complete research of this nature. Ethics are of utmost importance, especially when asking people to tell their personal stories.

3.7.1 Consent

Both the research participants have been asked to sign letters of ***consent***. Both participants are over the age of 18 years, and are therefore legally entitled to sign their own letters of consent.

3.7.2 Publication of results

Before any of these research results are published in the form of research or informal articles, the participants will be asked to peruse the articles for their approval.

3.7.3 Permission

Permission to conduct the research project has been obtained from the Ethics Committee of the Faculty of Humanities, at the University of Pretoria. This is an entity that has the specific task of ensuring that all research conducted within the faculty

subscribes to a strict code of ethics and standards. Permission to conduct the research project was also granted with the proviso that all conditions, as specified in the research proposal, are adhered to for the duration of the project.

3.7.4 Follow up

The final consideration in terms of the ethical research process is that if any of the participants felt that they needed a follow-up session as a result of their participation in the project, these would be provided by me, at my expense.

In the next section I shall comment on the relevance of this research project.

Memorandum point 8: Relevance

It is important that I mention the relevance of my study. This research project is very specific in its inquiry. There were only two research participants and hence, it would be inappropriate to make generalisations about all private investors who trade online. The study does however make a small contribution to the field of behavioural finance; it provides the reader with an introduction to how stories of trading online may be constructed and understood.

The declaration of qualitative research as reliable and valid should be treated with caution. These are terms which adequately describe the integrity of quantitative research. Qualitative studies, particularly narrative studies, are of a much more personal nature, the integrity, or authenticity, of which is partly influenced by the skills and interpretation of the researcher as the receiver of the story. For this reason, I shall not venture to advocate the validity and reliability of this study; rather, I shall strive for integrity in the interpretation of stories, while acknowledging my own prejudices in the interpretation (Sparkes, 1998; Watson & Girard, 2004).

This study acknowledges the fact that the stories of private investors are all unique, and therein perhaps, is the greatest potential for integrity; the fact that personal stories are

based on experiences and influenced by cultural stories over a period of time. The story of online trading seems co-constructed by the people in it and the markets themselves. In order to try and understand this, it may be beneficial to explore the experiences of online traders and more importantly, how they tell these stories to understand and make sense of their trading experiences.

Memorandum point 9: Conclusion

In the next memorandum I shall report on the research findings based on the narrative analysis of the stories of the two private investors. The stories of Participants A and B will be dealt with under the heading of Memorandum 4.

Regards,
The Researcher.

MEMORANDUM 4

To: FINANCIAL FREEDOM

Subject: THE STORIES OF PARTICIPANT A AND PARTICIPANT B

The previous memorandums have been aimed at setting the scene for Memorandum 4. I have completed the narrative analysis of the research material which consisted of an initial letter from each participant in response to the research question. This was followed by a personal interview. The letters were used to guide me in the personal interviews. In section A of this memorandum, I will discuss the story of Participant A (A). In section B, I shall discuss the story of Participant B (B).

In the discussion of the participants' stories, reference has been made to both the letter and interview material of each participant. This was done to allow the material to guide the writing of the research findings. Many of the questions I asked in the interviews were based on stories evident in the letters and thus, certain stories were retold in the interviews.

Section A: "Trading as a metaphor for life"

Memorandum point A1: Two story lines

There were two prominent story lines in A's story. The first story line tells how A experiences trading and the other story line gives an account of trading being a metaphor for A's life. I shall now begin by discussing the story of the trading experience of A.

Memorandum point A2: Story line 1 – The trading experience

The dramatic manner in which A introduced his experience of trading was intriguing. It seemed very busy and somewhat chaotic. I was left with the impression that A

experiences a link between the amount of time he spends trading and the extent to which he will earn profits. The excerpt from A's letter substantiates this.

> 3 Minutes later, logging out from some site on adventure gear, pips have barely moved, staring at the indicators, as if the sudden wealth is going to happen in the next 30 seconds, back on some boating site, 10 minutes go by…

It seems as if A is waiting for "sudden wealth" to happen while he is busy exploring and entertaining himself on other websites.

While staying with the same story line of A as a trader, he mentioned looking for other options (currency pairs) to trade. He introduced the concept of indicators (analysis tools used for trading). It was significant to me that he decided to stick with a trade once he had decided it "was good". In addition, he extended the size of his position in the market and then logged out. This suggests that A was experiencing positive sentiment about the market and his investment position. De Bondt (1998, 2003b) and Prechter (2001) would propose that A was trading in a bull market given the positive sentiment evident in the extension of his position size in the market. Textual evidence for this can be found in:

> Now I am three down, going on to other currency pairs… Pound / dollar… no, Aus dollar / US dollar… no, back to the dollar / yen, down one pip, staring at the indicators again, jump to the graph, decided that the trade was good, so I buy another bundle on the same pair, log out.

In A's experience of trading, it seems that time passes quickly, perhaps because he appears to be so 'busy' while he is trading.

> Looking at my watch I realise that this process took me through the best part of one and a half hours, promise myself I will only check again in the morning…. Two hours later I am logged in again…, for the third time this afternoon.

It seems that A loses track of time while he is trading. I found it significant that he makes a promise to himself not to log in again that day, yet "two hours later" he finds

himself checking on his trades again. It seems that A has broken a promise he made to himself and I can't help wondering about the intensity of the trading experience for A; whether he finds it difficult not to check his trades for the remainder of a day. From literature it is known that as a man, A might have higher expectations of his investments (De Bondt in Mussweiler & Schneller, 2003). This concurs with A's earlier statement of "waiting for sudden wealth to happen". A's regular logging in to the system is noted in literature in that men tend to monitor their investments more regularly than women. Also, traders who check their trades more often tend to make more trades (Chen et al., 2007; Dreman et al., 2001; Heaney et al., 2007; Rubaltelli, in press).

The account of the amount of time A spends trading alludes to a cultural story of time management having an influence on the way in which he talks about time. The cultural story of time management is present in the lives of many individuals. It is a story which influences most of us at some stage in life. It seems to inform A that the time spent should be productive.

In his story, A recounts a reflective process in which he engages about his trading experience.

> I have often asked myself whether or not Forex trading will become a financially feasible avenue for me, theoretically… I can see myself spending my day doing it, not all day, but often enough to earn significantly. Whether I would make any money, now that is an entirely different matter.

It seems that A has some questions about the financial feasibility of trading and that he is comfortable with the concept of spending time behind his trading platform, yet there appears to be a curiosity regarding whether the time spent will actually deliver satisfactory financial rewards.

A refers to himself as a dangerous trader and links this to "over-confidence". "I am a dangerous trader, maybe a reflection on my over-confidence in my insight and ability to read situations, yes... I think that over-confident individuals should possibly not trade as

a self sustaining financial solution". A indicates that over-confident individuals should not trade, especially not as a self sustaining financial solution.

This statement left me wondering about the cultural story of self-confidence in society. In my own personal experience, self-confidence is regarded as a positive attribute in an individual. The difference in A's story is that he is introducing a potential disadvantage of self-confidence or 'over-confidence'. It seems that everyday life and this participant's experience of online trading share cultural stories of self-confidence, yet they are interpreted differently. On the one hand, self-confidence is viewed as a good thing, and on the other, in the case of online trading, there seems to be a story of self-confidence potentially being "dangerous" and counterproductive to the success of a trader.

A's understanding of over-confidence concurs with the view expressed in literature. Over-confidence is said to be potentially detrimental to the performance of private investors (Campbell, Goodie & Foster, 2004). Closely related to the sentiment experienced by traders, it may lead to the distortion of trading information. This occurs when the strength of sentiment outweighs the statistical reliability of market data (Barberis, Schleifer & Vishny, 1998; Nelson et al., 2001). A's account of having confidence in his own "insight and ability to read situations" seems to play a significant role in how and how much he decides to invest in a trade.

The "insight and ability to read situations" may also be interpreted in terms of literature on heuristics. A's trading decisions appear to be influenced by quick decisions based on sentiment. The sentiment is in turn affected by simplified data upon which assumptions are made and rules of thumb are created (De Bondt, 2003b; Ekholm, 2006; Wang et al., 2006). This may be because A's story of being a "dangerous trader" is partly informed by the heuristical simplification of knowledge he has.

In A's experience of online trading, a metaphor emerged which compared trading to gambling. He stated: "It surely is exciting enough, which reflecting on it sounds an awful lot like gambling. Difference is, with trading I can tell myself I have a system…",

"…it's never frustrated me, but then, I have never really played large hands…" and "it is like playing the lotto, with the difference that you actually believe you can foresee the numbers falling down the tube…" There appears to be a connection between A's mention of not playing large hands and the limited control that a gambler has over the amount of money he decides to play. This gave the impression that A's story of trading is partly informed by a cultural story of gambling. These events in A's story seem connected with the early mentions of "waiting for sudden wealth to happen" accounted while the story was introduced. Gambling is a game of chance, involving a lot of luck over which the gambler has little or no control. Recounted soon after the apparent concern A has regarding the productivity of time spent trading, it appears that the inclusion of the gambling metaphor contributes further meaning to the experience of anticipating sudden success told at the beginning of the story.

> …the gambling I'm talking about there is your typical individual going to a slot machine…um…and the only control he's got over this process is how many times he puts the coin into the slot… you know in the old days you pulled an arm, today you just push a button, I think it takes away a bit of the fun but anyway…(laughs)…Nowadays with gambling that's all you do … you sit there, you've got a certain amount, you push it in and you push the button…and if you were to trade like that, trading would be a gamble…

A also appears to use the metaphor of gambling to understand the excitement derived from the experience of online trading. He describes the difference between trading and gambling as the fact that in trading he can "tell" himself he has a system.

The gambling metaphor was an effective way for A to describe what trading would be like without having a system. The excitement that he experiences from gambling, he experiences from trading as well. It seems that the use of the gambling metaphor further alludes to a cultural story informing A that he 'should' be using a system when he trades. Previous statements indicate that he does not necessarily want to have a system in place. This was supported by, "…15 years from now I would like to be at a point where I can have fun trading and not sit and follow systems". I interpreted this as reinforcement that A would like to trade because he enjoys it. Perhaps having a specific

system would deprive A of some of the enjoyment he experiences in trading. With such emphasis on the recreational aspect of trading and gambling, I was inclined to think that Forex trading does not constitute the majority of A's investments, as it seems that A derives more than investment value and profit alone from trading Forex online.

In the interview with A, there was another account of the gambling metaphor.

> …in gambling we don't have that, there's no intel and no judgment that takes place when you go walk to a slot machine… and I think that's where a system helps you to trade better… if you can stick to the system.

A described the difference between gambling and trading as the fact that in trading, one is able to have a system. He also introduced "intel" and "judgment" which could be equated to knowledge. It seems that A does understand the value of a trading system and the accuracy of judgment it allows. Perhaps A experiences knowledge as a key element in differentiating trading from gambling.

Literature notes the importance of a trader having a trading system and maintaining a level of consistency in their approach (Douglas, 2000; Plummer, 1993; Rotella, 1992). This may be viewed as a consistent, structured way in which traders can utilise the knowledge they gain in order to achieve trading success. A has indicated some discomfort with systems in his story, which warrants further exploration to find the meaning.

I have discussed the story line of "the trading experience". It left me with the impression that A's story also introduced an understanding of A as an individual. Specifically, the introduction of A's understanding and meaning attributed to systems was interpreted as a metaphor for the way in which he understands other areas of his life. It is for this reason that I shall now discuss the second prominent storyline in A's account. This has been entitled "trading as a metaphor for life".

Memorandum point A3: Story line 2 – Trading as a metaphor for life

The personal story of A provided me with insight to him as an individual. I decided to explore the story line of how he describes himself through the experience of online trading. The following evidence from the material effectively depicts trading as a metaphor for A's life.

> It is like putting something out there believing that the set of rules will govern and account for all the possible unforeseen angles happening in the market, in life. Minute by minute involvement, now there I dictate the outcome. I suppose trading in a way reaffirms my quick start nature, waiting for and involvement in the way things pan out over the long run has never really been part of my life-game strategy. I want the solutions and results yesterday.

The metaphor was further defined by: "The inconsistency is not only in my trading though, it is actually quite significant in my life".

> I am a bit of a dreamer, I know, waiting for life to suddenly move 400 pips in 3 days, with that expectation of me to be there and seize it when it happens. I think there is a lot of little profits I could have banked were it not for this. Maybe Forex is just a means of escapism, yet it reflects on my style in life so much, that I sometimes doubt its effectivity as a recreational past time. Maybe that is just my problem, I do not solely trade for profit, but then I doubt anybody does…

It appears that trading as a metaphor for A's life is the dominant story. There was much focus on this, leaving me with the impression that A attributes significant meaning to the metaphor. The life metaphor gave me valuable insight to the promise that A broke with himself earlier in the text. He mentions minute by minute involvement and self-determined outcomes. There seems to be urgency in the desire for results in trading. At this point, a link back to "waiting for sudden wealth to happen" could be made in that A accounts an impatience and urgency for movement and drastic change of circumstance. This could be interpreted also as a desire for variety and not mundane consistency. This urgency also appears to be a common experience in the participant's life beyond the trading story.

The stories about trading as a metaphor for A's life seemed to be surrounded by supporting stories about systems. Systems were mentioned in the context of both trading and his personal story.

"Systems, I wonder whether employing a system toward success at large will work for me, well, I know it won't, cos I won't follow it, but if I did… what would I gain, and would I lose anything?"

A wondered whether he would benefit from a system in trading, despite knowing he would not "follow it". This confirmation that he would not follow a system told me something about A as an individual in life, not only in trading. Of particular interest to me was the fact that A poses the dichotomous question about what he would gain and also what he would lose by following a system.

A left me with the impression that he finds it difficult to follow systems and that he battles to see the value in them. This aspect of A's story is different to what is proposed in literature regarding the importance of trading systems (Douglas, 2000; Rotella, 1992).

Evidence in the material indicates how he experiences systems, not only in trading, but also in his life. He stated: "…and yes, a system is possible, problem with a system is me, I have never been good at systems. They always seem out of control…", "I am rather careful with the numbers that I invest; yet, I am recklessly unsystematic in my trading process!" and "systems, I wonder whether employing a system toward success at large will work for me, well; I know it won't, cos I won't follow it…"

I was curious to ask A about the disadvantage of systems from his experience.

> Um…I'd say the best example I can give to you right now and I don't trade to the extent where I can sit and memorise all the deals I've done… I also don't jot them down…everything I've done…once again the unsystematic nature of my trading… but it must have been about a couple of months ago and what happened with the US and

> Yen… um at that stage, there was a movement of …roughly 200…250 odd pips, over a period of 48 hours…
>
> Um…now it recovered very quickly but it was a big movement within a period of 48 hours and I caught onto about 30 pips of that…because I stuck to my system of now in, now out, this is how its gonna work for one…and on the other hand I stuck to... and this is the paradox in my trading as you will have read in the letter…

It appears that he is blaming the trading system for the fact that he missed a potentially lucrative opportunity. This could also indicate a lack of trading experience on A's part. My own bias may be influencing my interpretation (Riessman, 2000), yet in literature it seems that an experienced trader would persist with a trading system, even despite incurring occasional losses (Douglas, 2000; Rotella, 1992).

The fact that A's experience seems to be somewhat different, intrigues nonetheless as it is one of the reasons why I was not able to answer my research question from literature. A refers to sticking to the system as a paradox. I was intrigued by this, as there seems to be a great awareness on A's part about the cultural story of systems, yet he still seems to struggle against them.

A's experience of systems and the way he tells it play a significant role in his personal story, the metaphor describing his life. It appears that A has a preference for a more impulsive type of living. I say this because of him describing systems as "out of control". He further mentions that the problem with a system is him, not the system. A was telling a story of not wanting to be controlled by systems. This is paradoxical, the fact that being controlled by a system for him seemed to be out of control. This left me wondering if A feels more in control of his life when not being guided by a system.

In the personal interview, I explored systems with A and the way in which he had written about his experience of them in the letter. The responses led me to the impression that his experience of systems, together with the mention of trading as a metaphor for his life, was constructing the dominant story. The story of not conforming to a system was consistent in both the letter and personal interview. He mentions that it

is not establishing the trading system that is problematic, but rather following it for a period of time. This is substantiated in the statement, "…I think having a simple system is fairly simple initially… but the problem with somebody like myself is sticking to the system… it's not getting the system there, it's staying with the system". Based on this statement, I got the impression that there was some conflict between what A perceived he was 'supposed' to do and what his personal story allowed. His statement, "…and I say, well the system tells me this, but my gut feel tells me that!" effectively illustrates his experiences of the conflict between a cultural story and his personal story.

The personal story of A, the metaphor for his life, seems to be significantly influenced by his "gut feel". It could be viewed as an 'inner voice' in A which seems to be constantly contradicting what he might be told to do by his trading system. What he is told to do by "the system", could be viewed as the cultural story of systems; the story from society which informs the manner in which private investors "should" be trading.

I was curious about how a system could be out of control. Of particular interest to me in this statement was the clock metaphor that A introduced, and how people become accustomed to the rhythmic ticking of the clock. It is a powerful description of how cultural stories in society tend to be followed blindly by the individuals in whose lives they are influential.

> Systems at large could get us in a rut and get us organised in such a way that the clock becomes comfortable…all right…so it keeps ticking at exactly the same pace, right, and it becomes a comfortable flow because you get into the flow and if you watch the second arm of a clock…after a while you can sort of follow it… you can sort of hear the next one before it happens at exactly the same pace…

The clock metaphor gives the idea that systems make life too predictable in A's experience. He later stated: "It's like you hear the next step before it happens…like that clock ticking…" It is as if predictability and a systemised way of life are going to cause A to miss out on certain experiences.

> ...and life becomes like that…and then what happens is we miss everything on the sidelines…all right … it think systems take away peripheral vision, and peripheral vision, the lack of, takes away opportunities and it takes away a lot of the energy that we could have in life. A lot of opportunities, be it financially, be it relationships, be it success…

It seems that A has first-hand experience of losing that "peripheral vision". My interpretation of his loss of "peripheral vision" relates to a situation where individuals become so caught up in functioning within the confines of a system that they lose the concept of how their lives would be if the system did not exist in the first place.

It appeared there was a possibility of A's dominant story changing over time. In telling the story about the future, an alternative story emerged. The alternative story dealt predominantly with the fact that A was not getting any younger and this significantly influenced the way he viewed the need for security in future investments.

> …what I would presume would be happening is that I would look for more secure safe investments that are not controlled by me but by a broker or etc at that point in time because the more I'm moving on in life the more security becomes important…

As mentioned in Memorandum 2, Forex trading is a high-risk investment. The alternative story of security in the future was informed predominantly by age.

> …but now as I'm growing older its becoming more and more important so I think what will happen eventually is when I'm at a point where I can spend more money on Forex I probably would spend that money on other investments that are more secure as that need grows…

It may be that A feels the time available for riskier investments is going to start running out. In some instances he talks about it directly. I noticed a contradiction in his stories, which he agreed with, he elaborated however, and in this way the alternative story of security in the future developed.

> …where you know in the one end you gonna gain a lot of security and its gonna be very helpful for settling down, gaining knowledge, getting established and getting your

> name out on the fields you want to get it out on, and setting a basis that gives you a bit of rest at night…um…it's gonna make me sleep better for that matter…

The impression I was left with from these statements is that the need for security plays a pivotal role in A being able to live his dominant story. This was influenced by the accounted inclusion of concepts such as family, a carefree life, recreation and dreams. It seems that if A was afforded the opportunity of a relationship with financial freedom, his dominant story would prevail as the basis for his experience. At this point in his life, taking cognizance of security is informed by A's dreams and wishes for the future. For the conflict to be minimised between the stories, A may have to trade priorities rather than currencies at some point in the future.

There was a sense of movement in this story. A began with an impulsive story line and as the story unfolded, an alternative view of the future emerged. At one point in our conversation I mentioned to A that it seemed, whether logged in or not, he is always trading. He is trading the dominant story, a metaphor for life that is lived out in the markets, and a cultural story of investment which informs the desire for a relationship with financial freedom.

A's alternative story appears to be more consistent with the institutional investment story mentioned earlier. The fact that there is uniqueness found in the online trading experience of one individual, gives testimony to the fact that current literature is not unilaterally applicable to the experiences of all private investors who trade online.

In section B of this memorandum I shall discuss the story of Participant B.

Yours faithfully,
The Researcher

Section B: "Knowledge gives control"

Memorandum point B1: Two story lines of Participant B

There were also two main story lines in the story from Participant B. The first story line dealt with knowledge and the sharing of knowledge. The second story line seemed to be about control and the fact that B enjoys to have control of his money.

Memorandum point B2: Story line 1 - Knowledge

The impression that B's story left me with was that he was telling a story about knowledge being important in online trading. This was the dominant story, with minimal accounts of other experiences. The cultural story of knowledge was told in a way which emphasised that the sharing of knowledge is a priority for B. This is substantiated in: "In particular, have a look at stochastics and perhaps you'll see what I see. We can do a comparison as soon as you're back from Japan", "Coming to think of it, perhaps I should take you to one of his seminars as they are very insightful and we could corner him for some information…" and "Well, time is short and there is so much I would like to show you".

Similar to his letter, B spoke a great deal about the sharing and role of knowledge; it was the major focus in our conversation. B seems to view knowledge as essential to trading, to the extent that he would find it difficult to be a trader without educating himself. B tells of his experience emphasising the gathering of theoretical knowledge before actually entering trades.

> I simulated[7] traded that for probably about a year and a half and I attended seminars, literally like once a month they had seminars but then after about the 10th seminar they started repeating things so I knew I had reached my ceiling in knowledge there, not from a trading perspective, but from a "now let's go and implement this theoretical knowledge…"

[7] Simulated trading allows investors to trade on live markets with virtual money. It is also known as paper trading and is a valuable aspect of the learning process for private investors who trade online.

> …and thought let me go and have a look at Forex and did the same sort of thing, went to seminars first and started reading up quite a bit about it first and started getting all the newsletters from places like Knightsbridge, Standard Bank…

B has a strong background education in finance and this significantly influences the lens through which he looks at a new investment opportunity. Finance seems dominated by a wealth of information, especially quantitative information. It thus seems plausible that B tells a story which includes a reference to the amount of knowledge he had accumulated before he went off and traded in a live market.

B mentions the difference between simulated trading and live trading. It seems that B differentiates the two by what he learned in the process. B introduced a metaphor of the "heart palpitation" to make sense of the emotional experience of actually trading in a live market. The abstract below substantiates B's view that real learning only takes place in the real market.

> …so I liked the volatility because I had the aim of putting in say 10 or 20 thousand US dollars and doing like a venture capital sort of "let's go and play the stock market"…win or loose, you know, that's how you learn, I mean you can do so much on simulated trading but you don't have that little heart palpitation that kicks in and goes well "I'm about to trade 5000 US dollars and at that stage the US was still something like 8.5…9…

The knowledge story indicated the kind of trader B is. It informed me that B prefers short-term trading. The way he accounted his experience is evidence of this preference.

> Long-term trades I think there's, I have done long-term trades, the longest I've probably done is about a year trade, but there's just too much economic information that you've got to take into consideration, before you do the actual trade, before you place the bid or buy or whatever the case, that, I'm not an economist so I don't understand economic factors as well as the guy that does fund of funds or equity based unit trusts or whatever…

It appears that the knowledge and analytical ability required to do long-term trading is experienced as being 'too much'. It does indicate that B is aware of his limitations. He

is more comfortable with short-term trading based on the amount of knowledge he can cope with.

Knowledge appears to be the link in B's story unfolding over time. The acquisition of knowledge is employed as a way in which B is able to understand his development as a trader.

B used stereotyping to illustrate his deficiencies as a trader in the long-term market. He differentiated professional knowledge to make sense of what it would take to effectively participate in long-term trades. This is evident in

> …and I've seen people that do long-term trade, I mean big companies they like, government bonds for instance, those things are 5…10 years, it takes a bladdy team of actuaries and analysts to say well this is the sort of interest rate that we can justify, this is the end place where we gonna end up.

B linked the story of trading skill back to knowledge in order to understand the difference. It appears that B perceives a distinct difference between trading knowledge and the concept of trading skill. He proposed that knowledge can be accumulated provided there is sufficient time to do so. He does not necessarily believe that with time, skill will automatically develop.

> Ja…the lack of skill, the knowledge you can probably pick up if you phone around enough and read enough but its gonna take you a few months to do it, so the knowledge is out there and you can gain it from the information that's out there… but I think there's a lot of different skills involved in long-term trading…

It seems that B believes that having knowledge does not necessarily imply that an investor is able to use it correctly. This principle can be applied to psychologists. As psychologists, we listen to the stories of our clients; we receive an account of information and experiences. In order to gain understanding of a client's story it is necessary not only to *listen*, but to *hear* the meaning that is attributed to experience. Similarly, a trader may listen to the market information available; the skill however, involves the interpretation of market information in order to aid the trading decision.

The above is noted in literature as a worthwhile distinction to make. This was noted in the context of investors making decisions based on knowledge and information used at face value. The danger associated is that due to a lack of ability to recognise the true meaning of market information, traders will base decisions on preconceived ideas held about market data. There is vast information available however, the above highlights the importance of the ability to interpret and apply knowledge which is acquired (Magliolo, 2005; Plummer, 1993).

B told a story of expert knowledge which in a way gave credibility to his account. In particular, the well renowned Robert Kiyosaki was mentioned.

> I read the, or obviously I've read all the Robert Kiyosaki books and I've got three CD's in my car about Robert Kiyosaki or he's actually the person speaking, and he says why does he have to go to a cocktail party and some high fancy trader says "no, I've got an inside stock tip on this and that", that's not what I intend doing when I share knowledge…okay…sharing knowledge for me is, if I hear about there's a better way to analyse something or there's a different analytical tool that's come onto the market, and I hear it first, I'm gonna definitely send a mail to all my fellow traders that I'm in contact with and say to them listen here I've just heard about this, let's all go and read up about this and lets come back and sit down and see…

A car radio is normally used for listening to music or a favourite radio station. In B's case, he tells of a number of compact discs which he listens to in the car. These discs carry the expert voice of Robert Kiyosaki, dealing with investment knowledge which B accumulates even while he is driving. It is clear that B values expert knowledge through the telling of this story. The fact that he takes responsibility for his own trades suggests to me that by absorbing expert knowledge he is able to substitute himself into the role of the 'broker' that would traditionally make decisions in the institutional investment story.

> …so I hear that Trevor Manuel uses a new thing to adjust the tax rates on capital gains, then obviously I'll share it with my mates or go and share it with people…

Gaining knowledge is not simply a case of exchanging sets of financial data, but rather a process aimed at gaining a better holistic understanding of investment and Forex

trading. The knowledge sharing story appears to involve a reciprocal process and a way for B of investing in himself.

B made the statement, "…there's nothing better in life than sharing knowledge…" and explained its meaning in:

> Ja well that's why you share it… to get feedback, so I would phone Mr X and say listen here I've just heard about this and maybe he even knows more than I do. If I'm trying to keep all the knowledge to myself it becomes completely irrelevant, because knowledge is something that is built up between different people…different ideas…

The mention of "feedback" is confirmation of the reciprocal manner in which B views the sharing of knowledge. It appears that by sharing knowledge with others and obtaining feedback, B generates an additional source of knowledge. He is also able to verify the relevance and accuracy of his own knowledge. By doing this, he is constantly growing his 'knowledge portfolio', which holds much benefit for his financial investments.

I have discussed B's story line involving knowledge. It provided insight into the way in which B approaches trading. Knowledge appears to be important to B in that it is a tool that he uses to assume responsibility for his investments. By taking on this responsibility, B is afforded more control of his money. The other prominent story line tells of having control. It is for this reason that I shall now discuss the story of control in the next section.

Memorandum point B3: Story line 2 - Control

The second story line in B's story deals with control. During our conversation, I asked B about the concept of using an investment broker.

> …um I like a little bit more control over my own money…for me at the moment it's still very speculative on the amounts that I do, 90% of my income doesn't come from trading, I mean then I would have been a broker cos that's what they do

B prefers having more control over his own money. By having understanding and knowledge, he is able to experience that control and still make the "educated decision" which he views as necessary for investment success.

> …I mean why do people start their own businesses, they want to make their own money, this is your own business, you sit with files and files and files of information that you've gotto work through to make certain educated decisions…

The above evidence from the material may be viewed as the linking of story line 2 back to story line 1. The opportunity to control his money seems to be supported by the necessity to make "educated decisions". B is enabled to make these decisions with the help of knowledge, housed in "files and files and files of information".

He introduced the metaphor of trading being similar to having his own business. By describing trading as his own business, for which he is solely responsible, B's experience of trading online is one in which he can play the role of the broker.

In B's story there even seems to be an explanation as to why many businesses fail when he says, "…no…you sign a 20% mandate on brokers these days, sometimes 40% mandate, and I mean why do you think some companies go under, they make uneducated decisions…" It seems that B attributes meaning to the experience of control through the story of knowledge. Knowledge informs the story line of control because it allows him to make educated decisions.

B connected the story about control with other experiences of emotion, although it seemed that emotions are separated from trading in an attempt to make them isolated experiences. I got the impression from B that knowledge and analysis are priorities to him and that only once he was satisfied with the experience of both, would he allow himself to experience emotion. B seems to experience elation in the process of trading online, particularly when he is successful. He said: "It's the rush…" It seems to me that the risk involved in online trading has quite a dramatic influence on the emotions experienced by B. In the statement below it appears that B's experience of the emotional discourse is dependent on the dominant discourse of knowledge. This is

evident in the text in the way that he speaks of growing "…big balls…" when things are going according to the analysis or application of knowledge that he has done.

B seems to ask a lot of questions when he trades and it is evident also in the text that fear plays a rather significant role in the questioning process.

> I find personally that when things are going according to the analysis that you've done then obviously you grow some big balls… for the first few trades when you are a bit sceptical and you don't really know, did I do the right thing, do I have enough information to justify certain trades? Obviously you're shit scared…

B mentions that "…it's all about confidence…" I got the impression that confidence has an influence on the intensity of positive emotions that B experiences in trading. He expresses an enjoyment of showing emotion related to his trading experience and suggests that it contributes to the trading confidence that he experiences.

> …but as you move along and as you gain confidence, it's all about confidence at the end of the day, I do this and this will reflect in the graph or this does reflect in the graph already, so sometimes you stand up fists in the air and go "yes please" I did the right thing, I did the right analysis and I like that side of the coin more than I like the calm collected, I like to show emotion in that, it gives me, it gives me confidence in what I'm doing…

In the literature, it was noted that a trader's ability to manage emotions lends itself to profitable decision-making. The benefit of understanding emotions was advocated as paramount in the maintenance of an investment strategy, particularly in challenging market conditions (Magliolo, 2005; Peterson, 2007; Steenbarger, 2003).

Emotions are said to protect the trader's self-esteem and are closely linked to the anticipation of feelings experienced by traders when making financial decisions (Fong & Wyer, 2003; Plummer, 1993). B's account of the emotional experience appears consistent with the suggestion in literature.

It is interesting to note a comparison between the stories of A and B when accounting their experiences of confidence. Participant A appeared to experience confidence as a potentially "dangerous" element of trading. B storied his experience of confidence as more positive, despite the way in which he seems to attempt to separate the emotions driving confidence from his actual trading decisions. It seems that the story about confidence is informed by different experiences for the two private investors.

I asked B about the influence that emotion has on his trading to which he responded with a statement about the potential danger of emotions. The delaying of emotional experiences appears to enhance the control with which B approaches online trading.

> I think for the first few years when you trade, emotions are, you've got to sort of lock them down in a cupboard and not let them be involved, but later on you can separate okay now I'm trading, when that trade gets realised and the profit gets taken then I can celebrate with emotions involved…but emotions are dangerous in big business deals to everyday trading, basically a lot of things, but I don't think there's anything wrong with emotions after you've done that cool calm and collected…

B's understanding of confidence appears to be constructed through the experience of emotions. I identified an underlying awareness of the danger of over-confidence. Perhaps this serves to explain why B attempts to separate emotions from the analytical aspect of his trades. Consistent with literature, this may serve him well and prevent the distortion of information which could result in over-confidence (Barberis, Schleifer & Vishny, 1998; Nelson et al., 2001).

The metaphor of locking emotions away in a cupboard allows B to limit the influence they have on his trading decisions. B acknowledges that there is nothing wrong with emotions, but only "…after…" the cool calm and collected interpretation of knowledge has been applied. B's view concurs with the general position held in trading literature (Barr, 2003; Gurney, 2002; Moodley, 2007; Rotella, 1992; Steenbarger, 2003).
B made a statement which relates to the "peripheral vision" mentioned by Participant A. B mentions that "you've gotto do cold hearted analysis… if I'm too positive in a trade things can go horribly wrong cause I'm missing some certain things but I'm not saying

you've gotto be sceptical and pessimistic about everything either". The link to "peripheral vision" is evident in that B suggests that emotion may well influence him to overlook certain things when making a trading decision. This appears to be a similar loss of peripheral vision experienced by Participant A when he used a trading system. It is interesting how stories about different experiences are told in similar ways by different individuals.

In the story of B, there were numerous mentions of "the rush", surrounded by stories of knowledge. The impression that this left me with was that in B's experience, emotions are good and the elation experience was something that he desired. What seemed important to him was that the balance of academic analysis and emotion needed to be managed well if he was to be successful in his trading. It seems that having "…the rush…" in trading is a bonus for B. There is evidence of this in "…for me it's a learning curve plus it's a rush to make your own money…" The pure enjoyment of emotion in trading was evident in, "…but I mean the rush…it's a nice rush… (Laughing)…"

The story of B indicates a very structured approach to online trading. He spends a lot of time researching to improve his knowledge. This aspect of B's story is consistent with the suggestion in literature that traders need to educate themselves in order to take the added responsibility of making their own trading decisions (Moodley, 2007). This applies to education about emotions in addition to the principles and theories of online trading.

B's experience of trading is greatly influenced by both the story of knowledge and the story of control. De Bondt (1998), Glaeser (2003) and Steenbarger (2003) noted the importance of discipline and consistency in trading. It seems that B is relatively successful at achieving a high level of discipline. The story of knowledge appears to help him remain disciplined and enjoy the experience of trading through a story of control. Greater control of his money creates independence for B, within which he can experience emotion at times which he deems to be appropriate.

In Memorandum 5, this research report will be concluded. The literature will briefly be revisited and conclusions will be drawn from the research project to answer the research question. The limitations of the study will be discussed and recommendations for future research will be made.

Yours faithfully,
The Researcher.

MEMORANDUM 5

To: FINANCIAL FREEDOM

Subject: CONCLUSION

In the previous memorandum, the stories of the participants were discussed, based on the narrative analysis of the research material. The purpose of Memorandum 5 is to conclude and bring together everything that has been done for this research project. For this reason, I shall briefly refer back to the context set for the study in Memorandum 1, and then refer back to the literature discussed in Memorandum 2, highlighting some of the prominent aspects. Next, I shall briefly refer back to the research findings as discussed in Memorandum 4. I will also mention the limitations of the study and make recommendations for further research surrounding this topic. I shall now begin by revisiting the context set for the study and the salient points from the literature.

Memorandum point 1: Context and literature

The concept of the 'institutional investment story' was introduced, in which the majority of people relied on financial institutions and experts to make investment decisions for them. This dominant story appears to encourage investment in vehicles such as property, which have long been regarded as safe and reliable.

The 'self investment story' was also mentioned, acknowledging the significantly smaller portion of private investors who choose to take the responsibility of investment decisions upon themselves. Within this alternative story, private investors appear to prefer the increased risk of making investment decisions themselves. The premise being that the potentially higher risk may offer higher returns. One example of this is online Forex trading. This study focussed on individuals who trade Forex online.

The existence of these opposing investment stories inspired my curiosity about private investors and more specifically how they experience online trading. The motivation for

the study was thus established and it became necessary to explore literature in an attempt to answer the research question: “How do two private investors experience online trading?”

In the literature review, various aspects of online trading were discussed. A description was given of how an online trade actually works. The history of the Forex market was explored, which offered insight into the relatively recent availability of this market to South African private investors.

It was noted by Rotella (1992) that psychology was an important aspect of investment and trading more specifically. One of the aims of this research was to investigate trader psychology based on the participants’ experiences.

The role of emotion in trading is complex, particularly when an investor is parting with large sums of money in a risky, volatile market such as the Forex market. Literature did emphasise the importance however, of private investors understanding their emotions and being aware of the impact they could have on the profitability of trading decisions (Barr, 2003; Dawes in De Bondt, 2003b; De Bondt, 2003a; Glaeser, 2003; Moodley, 2007).

A prominent topic in literature was also that of over-confidence. This is regarded as dangerous and potentially detrimental to a private investor. Over-confidence was noted to be caused largely by the distortion of previous success and inflation of the relevance and reliability of investment information. This was also closely related to sentiment and perception of value, which are indicative of the trader’s feelings about a particular market (Barberis, Schleifer & Vishny, 1998; Cheng, 2007; Dreman, Johnson, MacGregor & Slovic, 2001; Heaney et al., 2007; Hong, 2007).

The discussion of heuristics contributed to the literature review on investment decision-making. Heuristics were reported as a means for private investors to manage and simplify the overwhelming amount of information they need to process in their pursuit

of financial freedom. The danger associated with heuristics is that the Forex market is too large and complex to be oversimplified by intuitive statistics (Dreman, 2000).

Herd behaviour was also discussed in Memorandum 2 together with the fact that it had been found that there was an identifiable phenomenon of 'group think' among private investors all over the world. It was suggested that this was represented on a chart which demonstrated the movement of a particular currency (Du Bondt, 2003a). The concept of herd behaviour was offered as an explanation of why unfavourable investment decisions persist for so long (Glaeser, 2003).

The typologies of Keller and Siegrist (2006) and Clark-Murphy and Soutar (2005) were discussed as examples of how different types of investors may be understood. Critique was offered on the work of Keller and Siegrist in that it looked only at the money attitudes of individuals. This was noted as potentially limiting in that the typology did not offer an avenue for the understanding of actual investor behaviour.

The work of Clark-Murphy and Soutar (2005) was regarded as valuable as it acknowledged the behaviours of investors and not merely attitudes. Also, the model was based on a sample of individuals who were actively involved in investment activities (Oberlechner, 2004; Oberlechner & Hocking, 2004).

Mention was also made of the Barnwell Two-Way Model (Myers, 2007; Uchida, 2006), Bailard, Biehl and Kaiser Five-Way Model (Myers, 2007) and the Nine Money Personalities (Gurney in Du Preez, 2005). These were regarded as more "popular models" (Shiller, 2003, p. 91), and appeared to lack clear academic methodology, unlike the work of Keller and Siegrist (2006) and Clark-Murphy and Soutar (2005).

The literature review was concluded as not having offered a satisfactory answer to the research question. There did not appear to be any prior investigation into specifically narrated experiences of private investors. In order to answer the research question, the research project was conducted and two private investors who trade online were asked

to tell their stories. In the next section I shall briefly refer back to the stories of Participant A and Participant B.

Memorandum point 2: Research methodology

In Memorandum 3 the research inquiry was discussed. This included the research methodology, the theoretical position from which the study was done and the manner in which research material was collected and analysed. I also discussed the participants and the ethical considerations necessary to complete the research project.

In the next section, I shall refer back to the stories of A and B and make concluding remarks on their experiences.

Memorandum point 3: The participants' stories

A's experience of online trading had very little focus on the actual results of the trading. It seemed to be something which he enjoyed immensely. He told a story of being unsystematic and much of the experience he shared dealt with his criticism of systems in general and how he believed this disadvantaged people in all spheres of life. He spoke of the loss of peripheral vision which could be seen as a loss of opportunity beyond the boundaries of a system.

Later in A's story, there appeared to be a link between time and an increase in age, and the increasing need for security in investments. This story told me something about the kind of relationship that he envisioned having with financial freedom in the future. He mentioned that he would like to trade in the future, but that he wanted to be able to trade for enjoyment and not worry about sitting down at his computer and following a system. In essence, it seemed he did not want to be dependent on online trading in order to make money.

A had a powerful metaphor for his life in trading. The manner in which he told his story suggested that there were many similarities between the way in which he trades and the way in which he makes decisions and lives his life in general.

In B's story, there were a number of unique elements which were different from that of A. Although there were only two participants in the study, I was reminded how differently individuals attribute meaning to their experiences. I have no doubt that the interviewing of numerous other individuals would prove to reveal the same.

B's story was largely constructed through the cultural story of knowledge in various forms. This ranged from his background in finance to the fact that he derived enjoyment purely from sharing knowledge with others. Contrary to the narrative of A, Participant B seemed to follow a much more systematic approach to trading. In relation to the online nature of his trading, he mentioned that the evolution of technology in recent years had made trading much more accessible to more individuals. It seemed that B valued this aspect of online trading, not only because he could trade anywhere, but also because facilities such as e-mail and the internet gave him access to information sources which enhanced his experience.

The alternative story that B told dealt with control. He told much of this story by accounting his experience of emotions in trading. He gave the impression that he clearly separated trading decisions and analysis from his emotions. It seemed that he only allowed emotions to be shown once he had completed a trade and made a profit or a loss. He expressed enjoyment of emotions but there was a belief that they were better kept separate from the trading decision. He also mentioned that he enjoyed showing emotions because it helped his self-confidence.

B's story had a significantly more scientific tone to it. The main difference between A and B seems to be the seriousness with which they approach online trading and the value that they ascribe to the experience. This is especially evident in the emphasis on investment value described by B.

By attempting to understand the experiences of the participants and analysing the research material, I was able to gain some understanding of how these private investors ascribed meaning to their trading experiences. This enabled me to answer the research question: “How do two private investors experience online trading?

In relation to the literature, there were some commonalities that emerged in the participants’ stories. This was particularly evident in the story of Participant B. His mentions of herd behaviour and going against the ‘crowd’ were consistent with the descriptions of herd behaviour in the literature. His justifications of these experiences were supported by powerful examples he gave in the context of fundamental analysis.

Participant A had an interesting parallel connection to the literature. In his experience of systems (it is important to note that he found it difficult to follow them), he told a story similar to that dispelled in the literature review. I was thus able to understand the meaning he attributes to this difficulty with systems.

There is one specific conclusion that may be drawn from this research project. It seems that despite the unique differences in the stories of Participants A and B, they would both struggle to invest according to the institutional investment story. Participant A would struggle subscribing to the systematic and disciplined nature of the dominant story. Participant B would struggle to relinquish the control he has over his money. He prefers to be his own broker. This is testimony to the fact that people may have different experiences, they may tell their stories differently, yet it may still be difficult for them to identify with the same dominant cultural stories in society. This may apply not only to investment, but to any cultural story that attempts to inform a way of being.

I shall now mention the limitations of this study.

Memorandum point 4: Limitations of the study

It is believed that my limited experience as a researcher in the field of narrative psychology had an influence on the validity of the research material in particular. This

was also evident in the process of gathering research material from the participants. At times during the interviews, and afterwards, I was aware that there were a number of alternative questions that could have been asked. This may be enhanced with greater experience. Despite having immersed myself in the texts for a significant period of time, I still found it challenging at times to identify the main message the participants were portraying in their stories.

It is important to reflect on the fact that the stories I was privileged to hear were told to me as a psychologist in training. The importance of this became apparent in a supervision discussion about my research. An awareness of this leads to questioning how the participants may have told their stories differently if they did not know that I was a psychologist in training. This highlights one of the major lessons that I have learnt during the course of this research. People tell their stories to the particular person listening, and the way a story is told may be influenced by the teller's experience of the person receiving the message.

Memorandum point 5: Recommendations

My recommendation to future researchers, who would like to explore the experiences of online traders, would be to gather material from more participants. The fact that the story of each individual is so unique suggests that the integrity of the research may be enhanced by using a larger sample. Reflecting back on the research project, future researchers exploring this topic would also benefit from doing more follow-up interviews, as this would enable the gathering of fuller and more comprehensive research material, allowing the researcher a richer text to interpret.

Also to be considered is the fact that both my participants were white males, it may be beneficial in further research to include females and other racial groups in the sample. Particularly in South Africa, we are highly likely as psychologists to encounter clients from across the racial and gender spectrums.

This research would be futile without commenting on its implications for the practice of psychology. I have been trained in the researcher-practitioner model, which encourages a relationship between research and practice. This adds value to practice. This research project has enhanced my understanding of practice. When collecting my research material from the participants, they were both asked the same question, yet their responses were so uniquely different. Despite the difference, I gained an extensive understanding of their experiences. This is a reminder that in practice, no two stories will ever be told the same way. Being a good practitioner will be reliant on the way in which a psychologist listens to stories and the ascribed meaning which makes these stories unique. The way in which people talk about money and finance, may just be another unique vehicle in which they take us on a journey through their experiences of life and the meanings that they derive from being human.

I am satisfied that I have been able to answer my research question, for the purposes of this dissertation and for the benefit of my own curiosity. The experiences of online traders may not be completely understood yet; however I would like to conclude by borrowing a metaphor from Participant B, which I believe applies to the need for further research into the human element in trading. That is the concept of “the endless graph”, I may have made a small contribution to begin with, yet I believe it is significant enough to encourage other psychologists to keep adding candlesticks to the endless graph of better understanding private investors’ experiences of online trading.

Yours faithfully,
The Researcher.

REFLECTION

If you don't know who you are, the stock market is an expensive place to find out.

(Keynes in Tyer, 2008)

The road to completion of this dissertation has not been short. In the beginning, I was caught up in the whirlwind of having to finish the study for academic purposes, in order to complete my degree. This proved to be a major obstacle in my progress because all along it felt as if I was doing it for someone else, to prove a point. I fell into the trap of viewing narrative as an academic tool which had to be mastered in order to be worthy of being declared competent. As mentioned in the pre-reflection, another part of this process was to satisfy my curiosity as an aspirant, ambitious investor. For a time, I allowed that story to be forgotten and my story became one of fighting the system. I seemed to have adopted the story of Participant A as my own. Hindsight makes me think my supervisor had identified this in me. After shutting research out of my mind for some time, I made the decision to complete the study for myself; for nobody else.

The process became enjoyable to the extent that I found myself getting distracted by investment literature totally unrelated to this study. The power of narrative emerged as I examined my own contribution to the research story. I realised that I was not merely observing a story, I was part of it. Narrative was a way for me as well to make sense of myself, as it is for everyone. It was at this point that the pieces of this enormous puzzle came together. This has taught me that as psychologists we should allow people to find their own meaning.

Traditionally, a study of this nature may have fallen within the scope of industrial psychology. However, the relevance for counselling psychology is that financial issues have an influence on people’s everyday experiences and may lead to depression, anxiety and other stories of difficulty. Counselling psychologists have the opportunity to share in these stories and facilitate the process of retelling for alternative understanding and meaning.

This process has taught me more than just how to do independent research. It has taught me about myself. I have gained an understanding of the researcher-practitioner model in

which I was trained, appreciating how the critical thinking and awareness in research is one of the essential skills required to truly hear what people are telling in their stories.

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APPENDIX A

PARTICIPANT CONSENT FORM

Participant Consent Form

Researcher: **Christopher Holt**

Telephone no.: 012 420 2333

Research title: Narratives of Online Trading

Dear Sir/Madam,

I appreciate your willingness to be interviewed about your experience of online trading for the above mentioned research project. Please familiarize yourself with the information contained in this consent form, before signing. I shall contact you to make arrangements regarding the writing of you essay.

Purpose: The purpose of the research project is to explore how private investors experience trading online.

Procedure: Your participation is requested for three (3) interviews and the writing of one (1) essay about your experience of online trading. This should be sufficient to gather the necessary information for the research project. It is possible that I may have some further questions about your experience after the interview which I will convey to you via email.

Risk: The nature of your participation in the research project is such that it can possibly lead to a degree of emotional discomfort. The researcher will provide follow-up sessions should you feel that you are in need of such sessions due to the research project. This will be done at the cost of the researcher.

Benefits: There will be no financial gain for you as a result of participating in this research project. However, it is hoped that in taking part in this study, you will experience some beneficial effect by sharing your experiences with the researcher.

Participant rights: Your involvement in this study is voluntary and you are not obligated to divulge information you would prefer to remain confidential. You may withdraw from the study at any time. Before any results are published in research articles, you will be asked to peruse the publications for final approval.

Confidentiality: All the information you provide will be treated as strictly confidential. You will not be identified in any documentation by your name. You will therefore be referred to in all documentation under a pseudo name.

Consent

I, _____, hereby confirm to have read and understood the above consent letter regarding the research project. I understand that my participation in this project is voluntary and I may choose to withdraw at any time, without any given reason. I agree to participate in three (3) interviews of approximately one (1) hour each and to write one (1) essay. I agree to answer some follow up questions regarding my essay or interview if it is felt necessary by the researcher which will be facilitated via email. I hereby agree to participate in this research project.

Signed at _____ on this day_____

_____ _____

Researcher: C. L. Holt (Participant)

_____ _____

Supervisor: Dr L. Human HOD: Department of Psychology

APPENDIX B

EXAMPLE OF NARRATIVE ANALYSIS

NARRATIVE ANALYSIS

Participant A (Interview)

R/P	Narrative	Landscape Of Action (History) Goal: The goal of this section is to (1) determine the sequence of events in the narrative and (2) to understand how an event links with previous and/or following events.	Landscape Of Meaning (Culture) Goal: The goal of this section is to try and understand what meaning(s) the participant contributes to an event(s) by giving a brief description of how the participant did it, as well as a summary of the 'mini-narratives'.
R	Ok… um in reading your letter, probably the first thing that that struck me was right in the beginning the way that you introduce the way you spend time trading struck me as being very intense…that process of trading where you mention being on one website and then being back on the trading and then logging out and being on another website. What can you tell me about that intensity that I've picked up or that business, if I can call it that?		

P	I think…I think the thing is that the intensity, and once again, I mean you've read the letter, you've… you've worked on the letter, is that it very reflective of my state of mind at large…uh…at this point in time. There's many things going on in my life, so I'm jumping maybe around in the letter in the way that I explain trading and the way that I trade is…is maybe a metaphor for what's happening in my life. There's so many inputs that I want to juggle and handle and have a hold on at once…um…that I think the effectivity in the end of the day on any one of them is…is less because I'm… I'm jumping around with being it moving to another country, being it, you know with the work that I'm doing and new projects that I'm trying to launch in South Africa…or be it then with the trading itself…	Event 1: His experience of life reflects in the way he trades and the effectivity thereof.	P uses the "business" of his life to describe to me the intensity of his trading. It appears that there are many things happening all at once and it appears that he has little control over all things happening in his life. I want to call this confusion, and this seems to have an influence on how "effective" he is as a trader. He refers to "juggling inputs" in a reference I suppose to multi-tasking and a perhaps a lack of effectiveness, he does not mention any specific resultant outputs **Summary:** Narrative of lack of control Narrative of effectivity as a trader
P	so then, you at the project and then you at my dreams…and I spoke about my dreams in the letter,	Event 2: Dreams	P introduces the concept of his dreams which he also mentions in the initial letter. He does refer to dreams in more detail later in the text. It appears that the P frequently jumps to his dreams while in the midst of the business of his life and trading. It feels as if all the things that he is busy with are in a way connected to the realization of his dreams. **Summary:**

			Narrative of jumping between present actions and the future
P	and then the next minute I'm at, at the trading again and I think it's, that's how I trade as well. You know, it's like if…I feel more productive if life feels busy, but it's not necessarily the case, in terms of effectivity.	Event 3: His experience of life reflects in the way he trades and the effectivity thereof. (2nd account)	The P appears to draw a clear distinction between productivity, "business" and effectivity. While he acknowledges that his life is very full and busy and that he jumps around a lot in no particular order, he indicates an understanding that being productive does not necessarily mean that he is achieving anything significant (effectivity). **Summary:** Narrative of results vs. effort Narrative of effectivity as a trader.
R	Ok…that links quite interestingly to…to another thing that I picked up and I'm just gonna jump here in my notes to a point in the letter where you mention yourself as being a dangerous trader, and I wanna come in with that question now, because you mention being a dangerous trader…then you reflect on insight and the confidence to read situations. So how does this play a role in your online trading specifically?		

P	When I trade……..I do a basic analysis of what is happening in front of me with the…the different trades, but it's a very limited analysis.	Event 4: Limitations of his analysis	The P seems to emphasize the limited nature of the analysis he does when entering a forex trade. He talks of an analysis of "what is happening in front of me", this could be indicative of the P having a 'here and now' approach to his trading experience. This seems very much a focus on what is happening in the present. **Summary:** Narrative of limitations (knowledge) Narrative of focusing on the present
P	And I think what I then do is… is go onto the trade, make a …make a quick call in terms of "if this is not working would I see it happening and be able to get out quick enough". Rather than asking more the question "looking at this currency pair is this the right trade…	Event 5: Questions	The P narrates the experience of questioning the way he trades. It seems that he is also telling of an experience of wondering whether he is asking the 'correct' questions. He refers to "making a quick call", this statement concurs with the 'business' and apparent confusion mentioned in E 1 & 3. In the first question he is asking if he would be able to get out of a bad trade fast enough, in essence asking if he would be able to save a bad trade before it turns uncontrollable bad. **Summary:** Narrative of questioning Narrative of safe keeping

P	and I think there comes my, and I spoke about gambling in the thing…there comes the gamble side of it.	Event 6: Trading as gambling	The P refers to the gambling nature of trading, having also mentioned this in the initial letter. In the context of questions of the previous statement, it seems that by asking questions about saving a losing trade, he metaphorically describes this in the same way as a gambler would ask whether or not he would know soon enough when to stop. **Summary:** Narrative of safe keeping Narrative of consequence of decisions

NARRATIVE ANALYSIS

Participant B (Interview)

R/P	Narrative	Landscape Of Action (History) Goal: The goal of this section is to (1) determine the sequence of events in the narrative and (2) to understand how an event links with previous and/or following events.	Landscape Of Meaning (Culture) Goal: The goal of this section is to try and understand what meaning(s) the participant contributes to an event(s) by giving a brief description of how the participant did it, as well as a summary of the 'mini-narratives'.
R:	Alright, maybe what you must do is just tell me a bit about you first as a trader, how you got into it, what attracted you about it…a little bit of background about you as an online trader.		
P:	Someone took me to a conference at GT247, it's an Irish based company, I've actually mentioned it in the letter to Denny Crane, I got taken to a conference cos they've got these seminars about CFDs…contracts for	Event 1: Introduction to trading	The P describes how he was introduced to trading by a friend of his. Initially he wasn't introduced to forex trading but it seems this was the beginning of his journey to forex. The narrative seems to be situated in the context of

	differences, and I didn't know anything about CFDs and I think that most of us that are studying finance have an interest in like the markets and where to put your money and obviously trying to get above inflation so, the bottom line is where do you put it, so the stock market is one thing, but then you can find so much about stock markets. CFDs is relatively new to south Africa, its 15 or 20 years old, but people have actually been able to trade it online okay so either way this person took me, this friend of mine, she's actually an accountant, she took me to GT247, they've got offices in JHB and…the guy that was the guest speaker was a hedge fund manager for quite a large company that's situated in Cape town, ok and he was just going through strategies and explaining how CFDs work and periods and you know your contract rolls over within 3 months or 6 months, whatever they use as their basis…		people in finance (his friend and accountant and himself a student in finance/accounting). **Summary:** Narrative of friendship introduction Narrative of knowledge (acquiring)
R:	Is this now specifically related to forex trading?		
P:	no that's, CFDs, that's how I started with CFDs, later on…do want me to tell you more about how the…		

R:	no I was just asking the question…		
P:	no, CFDs is not forex like I know it…CFDs are options, it options and futures and future contracts…but then I simulated traded that for probably about a year and a half and I attended seminars literally like once a month they had seminars but then after about the 10th seminar they started repeating things so I knew I had reached my ceiling in knowledge there, not from a trading perspective, but from a "now let's go and implement this…theoretical knowledge perspective…	Event 2: Knowledge	The P talks about how he went about learning more about trading for a while and simulating the trading process (paper trading). The P mentions a point at which he felt he had learnt what he could on a theoretical level and then had to go and put it into practice. **Summary:** Narrative of knowledge (acquiring) Narrative of theory vs. practice.
R:	Yes		
P:	so then I did that for a while and obviously through trading you start speaking to guys that are doing, that are fund managers or doing funds of funds or doing whatever trading they do, and eventually I got to a guy that trades for Knightbridge and he's a guy that literally sits there, and he said to me do I want to have a look at how he trades and he was pumping money literally like a $20 mill dollar trade in without blinking an eye, and I thought well obviously …big goons and thought let me go and have a look at forex and did the same sort	Event 3: Knowledge (2nd account)	The P now introduces the beginning of his forex trading where he started gathering knowledge in a similar way to what he did with CFD's (contracts for differences). He tells how he spent some time with a professional trader and experienced how trading worked…he refers to "big goons" which I presume means that he experienced this as a rather risky type of investment. **Summary:** Narrative of knowledge

	of thing, went to seminars first and started reading up quite a bit about it first and started getting all the newsletters from places like Knightbridge, standard bank where you can do your own forex trading…		Narrative of risk (awareness)
P	and then because of the volatility of the market, because the market always goes up or down, especially if you do the US crossed with anything basically, it's always, there's so much movement, there's always a profit taking opportunity if you a day trader plus there's always long term goals, you want to set a 3 month goal or a two year goal or a month goal…	Event 4: Opportunity	The P describes his realization of the extent of profit opportunities in the forex market due to the fact that it is so volatile, particularly as a day trader (relatively short trades). **Summary:** Narrative of opportunity
P	so I liked the volatility because I had the aim of putting in say 10 or 20 thousand US dollars and doing like a venture capital sort of "lets go and play the stock market"…win or lose, you know, that's how you learn, I mean you can do so much on simulated trading but you don't have that little heart palpitation that kicks in and goes well "I'm about to trade 5000 US dollars and at that stage the US was still something like 8.5…9…	Event 5: Knowledge (3rd account)	I get the feeling of excitement on the part of the P about his trading experience thus far. There is a focus on learning in the 'real market', he puts this into perspective by quantifying the extent to which he intended entering the market ("I had the aim of putting in say 10 or 20 thousand US dollars"). Interestingly he mentions a physical reaction (heart palpitation) to the experience of placing real money into a trade. **Summary:** Narrative of risk Narrative of knowledge (real practical context)