Original Research Article

NYSE: Emotional Control Sharing Trading Psychology

ABSTRACT

A real-world problem in stock markets is always the emotional control. Obviously, the real question is how to “control” the bad emotions (e.g. fear and greed), just before the execution orders, rather than to “eliminate” them. In this article the innovative concept "Emotional Control Sharing Trading Psychology, ECSTP" is introduced and described as a term. Then, an empirically-tested approach is performed in order to initially evaluate the proposed term in NYSE trading strategies as far as the returns are concern. The evaluation results show an up to 29% improve in returns after the adoption of the proposed term.

Keywords: Investor emotions; Traders emotions; Trading psychology; NYSE.

1. INTRODUCTION

Always in trading and particularly in trading psychology, the so called bad emotions (e.g. fear and greed) resulted in undocumented "buy" and "sell" orders and eventually in trading loses. The "bad emotions" problem described by [1,2,3,4] in financial literature. In this field, timing the market trading activities is always a difficult function [5,6]. Also, in trading, a number of chaotic functions with unpredictable functionalities is involved, like determinants and price changes [7], market trends and financial crises [8], market volatility and leveraged ETFs [9], temporal changing climatic conditions [10], triggering orders in trading [11], etc.

But, despite the fact that in financial literature trading tactics were fully investigated [12,13,14,15,16,17,18,19], the "sharing trading psychology" topic is still an undocumented term. Also, "emotional control" in a sharing environment is a challenge for investigation, research and documentation. Obviously, the merging of the "sharing trading psychology" topic with the "emotional control" in a sharing environment challenging should produce a trading dynamic psychology, still undocumented so far.

The purpose of this article is to approach the above merging using empirically-tested data provided by Barron’s [20]. It must emphasized that, as far as the current paper is concern, it is just an approach and not a well-documented methodology [21,22,23,24].

The rest of the article is organized as follows: Section 2 ("Emotional Control Sharing Trading Psychology") the new concept is introduced and projected in time to become a temporal term; Section 3 ("Empirically-tested Functionality") validates the introduced temporal term and discuss its performance; Finally, Section 4 ("Conclusions") summarizes
paper’s innovations and contributions.

2. EMOTIONAL CONTROL SHARING TRADING PSYCHOLOGY

The introduced concept “Emotional Control Sharing Trading Psychology, ECSTP” tries to addresses the trading dynamic psychology as a preliminary solution to the “bad emotions” problem at an initial stage (approach); and it is defined as a collaborative procedure between traders and investors in sharing their ideas, opinions, and initiatives just before the final order (triggering) [8,9]. That is to say, the executive part in trading (triggering procedure) is executed only after a sharing trading psychology meeting and a derived tactic. The members of this collaborative procedure could be the traders of a financial company or the individual members of subscribed e-trading rooms recently appearing in USA [22,25].

The proposed concept ECSTP in case of projection in time, become a temporal function rich in simple or conditional trading functionalities (e.g. simple: “Buy/Sell immediately on Market open at 09:30 am EST”; conditional: “If the Price Action at 11:00 is above the detected morning local high, issue a BUY order”).

3. EMPIRICALLY-TESTED FUNCTIONALITY

The statistics for the proposed ECSTP function are presented in the following Table 1, which displays the summary numbers and statistical indicators of both “Individual Trading” and “Cooperative ECSTP Trading” trading from 1st January 2016 to 31st December 2017 (1105 trades in both cases). For comparative reasons, the “Individual Trading” was carry out in Melbourne, Australia under the supervision of the second paper’s author; and at the same time the proposed “Cooperative ECSTP Trading” was carry out in Thessaloniki, Greece and Maastricht, Netherlands under the supervision of the first paper’s author.
Table 1. Sample ECSTP Statistics (Trading Returns)

<table>
<thead>
<tr>
<th></th>
<th>Mean Return (%)</th>
<th>Median Return (%)</th>
<th>St. dev.</th>
<th>Mean Return (%)</th>
<th>Median Return (%)</th>
<th>St. dev.</th>
<th>Differences in Mean (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Shareholding Dynamics Data</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Simple</td>
<td>1105</td>
<td>4.54</td>
<td>4.54</td>
<td>1.92</td>
<td>1105</td>
<td>5.58</td>
<td>4.87</td>
</tr>
<tr>
<td>PA Conditional</td>
<td>1105</td>
<td>10.50</td>
<td>0.35</td>
<td>1.44</td>
<td>1105</td>
<td>13.13</td>
<td>0.04</td>
</tr>
<tr>
<td>Simple Temporal</td>
<td>1105</td>
<td>14.54</td>
<td>4.54</td>
<td>1.92</td>
<td>1105</td>
<td>18.32</td>
<td>4.87</td>
</tr>
<tr>
<td>PA Conditional Temporal</td>
<td>1105</td>
<td>20.50</td>
<td>0.35</td>
<td>1.21</td>
<td>1105</td>
<td>25.83</td>
<td>1.07</td>
</tr>
</tbody>
</table>

*Changes significantly different from zero at 3% level
**Changes significantly different from zero at 1% level

Where:

Simple – A non-Conditional (Price Action) Buy/Sell order & without any timing influence (i.e. random time orders).

PA Conditional – A Price Action Conditional Buy/Sell order but without any timing influence (i.e. an order depending from the Price Action chart’s critical points; e.g. morning session’s local high/low).

Simple Temporal – A non-Conditional (Price Action) Buy/Sell order & with timing influence (i.e. orders at specific times; e.g. Buy on opening at 09:30 am EST, Sell on closing at 04:00 pm EST).

PA Conditional Temporal – A Price Action Conditional Buy/Sell order & with timing influence (e.g. Buy on closing at 04:00 pm EST if the PA is above the daily-mean PA high).

Return - The trade return measured in US Dollars ($).

Difference - The difference in Mean Returns between “Individual Trading” and “Cooperative ECSTP Trading”.

3.1 Discussion

The Table 1 statistical figures suggest that the incorporation of the proposed ECSTP cooperative trading function increase trade returns by 23% to 29%. The percentage depends from both, the PA conditional trading and the temporal trading. The biggest difference (29%) is achieved if the ECSTP function is operated with a PA conditional temporal functionality (e.g. Buy on closing at 04:00 pm EST if the PA is above the daily-mean PA high and Sell next morning on opening at 09:30 am EST) [26]. Also, the Standard Deviation numbers of the proposed ECSTP trading are always lower than the Individual trading implying a bit more sustainable results.
4. CONCLUSIONS

The emotional control is a real-world problem in many cases and particularly in stock markets trading. In this domain the big question is how to “control” the bad emotions (e.g. fear and greed in trading). In this article the innovative concept “Emotional Control Sharing Trading Psychology, ECSTP” is introduced and described as a term and as a temporal function as well. Then, an empirically-tested approach is performed in order to initially evaluate the proposed temporal function in real NYSE trades performed in Australia and Europe simultaneously. The evaluation results, statistically derived, show an up to 29% improve in returns after the adoption of the proposed temporal function in cooperative trading tactics.

As an empirically-tested approach rather than a well-defined methodology (future extensions of the presented research), the introduced concept “Emotional Control Sharing Trading Psychology” tries to addresses the trading dynamic psychology as a preliminary solution to the “bad emotions” problem; and it was defined in this article as a collaborative procedure between traders and investors in sharing their ideas, opinions, and initiatives just before the final order. In other words, the executive part in trading is triggered only after a well-organized sharing trading psychology meeting and a commonly accepted tactic. The members of this collaborative procedure could be the traders of a financial company or the individual members of virtual trading rooms.

REFERENCES


