

Fear and panic in the money markets

Jürg Conzett, initiator of the MoneyMuseum, and the findings of neurobiologist Gerald Hüther

By Carol Schwyzer, © MoneyMuseum

Change is a fact of life, but it's unsettling

«Nothing is constant except inconstancy,» said the German philosopher Immanuel Kant in the 18th century. Long before that, around 500 BC, the Greek philosopher Heraclitus of Ephesus coined the phrase «Panta rhei», «everything is flowing».

Change is a fact of our human existence. We're all aware of that. But when change affects us directly, when our inward or outward situation changes, we don't like the idea at all at first, especially if our lives up to that time had been comfortable and successful. The first result of changes that take place around us is often fear and panic. The attack on the twin towers of the World Trade Centre on 11th September 2001, or the collapse of what had seemed the rock-solid airline Swissair, or sudden unemployment, or an accident, the loss of a partner through death or divorce, a stock exchange crash – those are all things that shake the very foundations of our world.

Or just imagine you lived in Argentina and had a nice little nest-egg saved up in the bank. And then your country, which had seemed so prosperous, drops ever deeper into a political and economic crisis. The peso is uncoupled from the dollar, the country's banks are close to collapse. You try to withdraw your savings from the bank to rescue them from the crisis, but the government has issued a decree restricting withdrawals to \$1500 a month. That protects the banking system from collapse, but you start to fear for your money. It wouldn't be at all surprising if you and others got into a panic and started holding up and robbing supermarkets. Your whole thinking up to that point – «my money belongs to me and I can do what I like with it» – no longer applies, and that makes you afraid. And if the situation seems hopeless, you're not just afraid; you begin to panic.

Don't worry about panic!

«I can reassure you,» says Jürg Conzett. «You're not alone in your fears, by any means. The many books and Internet pages on fear and panic make that quite clear. I've often experienced situations when my usual methods (for example on the money markets) no longer worked and suddenly stopped being successful. The bottom fell out of my world; I thought I was going to die.»

But Jürg Conzett survived, and survived quite comfortably too. And thanks to his experiences, he now knows quite a lot about panic. And in the person of Dr Gerald Hüther, professor of neurobiology at Göttingen university in Germany, he has found someone who knows exactly how fear and panic function in our brains – after all, he has been researching into the functioning of the brain for many years. He has described his findings in books such as «Instructions for using a human brain», «How stress leads to feelings» or «The biology of fear».

And he too, as an expert, has comforting news: «The natural stress reaction has enabled innumerable living things to survive critical phases. It kicks in whenever danger threatens, in other words, when life-threatening changes occur in the part of the environment that's necessary for survival.»

The brain can learn

The nervous system, that multi-branching, unbelievably complicated structure that pervades the entire body, may be regarded as the governing organ and control centre for almost all the functions of both body and mind. The development of the personality and its experiences are stored in a never-ending succession of new nerve connections, the «neuronal pathways».

Nowadays, research has demonstrated that the brain retains a lifelong ability to learn. In his book «Instructions for using a human brain», neurobiologist Gerald Hüther asks, «Did you imagine your brain worked properly all by itself? If you did, you were wrong. It's true that every person has a unique brain with its own unique weaknesses and strengths. But what becomes of those strengths and weaknesses in the course of a human life depends entirely on the way that brain is used, and what it's used for.» The brain, he says, works in exactly the way its neuronal pathways are set up. «And what pathways are set up, and how they can be used to solve problems, depends entirely on how you've used your brain up to now.» Depending on whether you do a lot of sport, or spend your life sitting in front of the computer, or play a musical instrument, or sit on the couch every evening watching television, you use quite different neuronal pathways. People naturally tend to use the pathways that permit the best possible strategy for solving current problems. Gerald Hüther likens much-used pathways to motorways, which are well travelled, in comparison to the country lanes and byways, which are neglected and become overgrown. But what if there's a great storm or an earthquake, when the environment changes so much that the motorway becomes unusable?

Controlled fear, uncontrolled panic

Jürg Conzett knows that massive fear is the normal reaction of all higher forms of life when serious danger threatens. It can even be life-saving, because the release of stress hormones in the brain enables the organism to adapt to a changed environment. The release of adrenalin into the bloodstream enables it to make an appropriate reaction to the danger. That may be flight, aggression, or some other adaptation to the threatening situation. Sometimes ethical values have to go by the board – survivors of shipwrecks like that of the *Titanic* recount how their consciousness becomes concentrated, tunnel-like, on the route to survival. And that means that Christian principles like caring for one's neighbour, which are learnt early in life and in other situations are altogether appropriate, have to be relegated to a back seat.

Fear is an unpleasant feeling, which we would prefer to be without. But fear activates the brain and permits us to adapt to a new situation. In all vertebrates, fear sets off the neuroendocrine stress reaction, which is conditioned by disturbances to the nervous system or to the body's inner secretions – it rings the brain's alarm bells, as it were. If a solution to the threatening danger is found, that fear dissolves, and the situation becomes a challenge surmounted, which leads to feelings of happiness and satisfaction at the new-found strategy.

But if you cannot find a solution, if the situation is so new that all your previous strategies are useless, then controlled fear rises to an uncontrolled stress reaction – panic. You feel powerless, lost, helpless. The alarm bells have changed into wailing sirens. Your brain runs amok, you are plagued by self-doubts. But there's no cause for despair! Panic can also offer opportunities. Panic activates every cell in the body. In the brain, neuronal pathways are activated that had never been touched before. As Gerald Hüther says, panic shuts down those pathways that had turned out to be dead ends. In a way, there can be no progress without panic!

Watch out for long-term stress!

So to some extent it's a good thing if you feel massive fear in a difficult situation. Panic usually doesn't last long. Fear and panic only become harmful if they subject the organism to long-term stress, since the body reacts to a long-lasting flood of stress hormones with the collapse of the immune system and resulting illness.

But if you succeed in directing your panic towards setting up new neuronal pathways, you'll be able to find appropriate ways to cope with the new situation. The old pathways, those figurative motorways, will dissolve. The old overgrown tracks and lanes will be cleared of their undergrowth and become usable again – and lo and behold, they lead to many new, wonderful discoveries, and you begin to make progress again.

The money market - mirror of the cycle of life

Just like life itself, the market is cyclical, i.e., constantly changing. More than almost any other medium, the money markets reflect human emotions, fears and hopes. People hope that good investments will bring them wealth, security, independence and happiness. Against that, big losses may threaten their financial existence. And like life itself, the money markets are at the mercy of many forces – they reflect political and social changes, both real and virtual. Any share-value curve showing changes on the stock exchange gives us a graphic portrayal of the events in the world, together with the emotions that accompany those changes. Thus moments of greater or lesser panic show up as greater or lesser movements on the stock exchanges.

Jürg Conzett has a saying which applies equally to the money markets and to life in general: «A moment of crisis is always a moment of truth as well – a moment of opportunity.»

«Being really successful is one of the worst things that can happen to you in life!»

«This quote from neurobiologist Gerald Hüther is easy to misunderstand, but it's absolutely true,» says Jürg Conzett. «Success really can be a bad thing, because it tends to make people think «I know how to do it.»»

Take the dinosaurs, for example. In their way, they were very successful. They were so big that they had no natural enemies. And yet they died out, not because they were eaten by other animals, but because it was too cold, too hot, too wet or too dry for them, and they could no longer find food for themselves and their young. Their brains were too inflexibly programmed to be able to react flexibly to such things as major climatic changes.

And a really successful investor is in danger of being as overconfident and as inflexible as the dinosaurs. Every investor has his method, whether it be a technical method, a fundamental one, or some other kind. That method may give years of success. Success makes the investor think he knows how the market works. Like a racehorse wearing blinkers, he gallops round and round, always on the same fast track. Success has blinded him. He does not perceive the changes that take place away from the racecourse, nor the obstacles that are constantly set in his way. Until the crash comes! The environment has changed drastically, whether as the result of some economic development, or political upheavals, or an act of terrorism. Suddenly, the investor finds his well-tried method no longer works.

Many people react to such radically new situations with panic, as for example on «Black Friday», the 24th Thursday 1929, the day the famous crash hit Wall Street. Share values plummeted from well over 100 dollars to a few dollars in a single day. Wall Street resembled a battlefield –

thousands of investors ran around in panic in the streets, brokers jumped out of windows to their deaths. As a result of that crash, the United States, and with it the rest of the world, plunged into the World Economic Crisis, which lasted till 1931.

Panic leads the «dinosaur of the market» to ruin. But an investor who is capable of leaving the well-travelled motorways in his investing brain and finding new pathways for his ideas, has great opportunities. Here's what neurobiologist Gerald Hüther has to say: «The stress reaction, which is accompanied by despair and a feeling of helplessness, is the precondition for finding a new, more appropriate way of overcoming fear.» And: «Only when the broad roads and motorways are swept away and melted down in their brains will people regain the freedom they need to move their thoughts on to one of the many other paths, which they had seldom used and had almost forgotten.»

Fear and panic are Nature's way of enabling us to melt down old ways of thinking and to find a new orientation – in the money markets as well as in life. Jürg Conzett's conclusion is quite simple: «The research findings on the effects of panic in the brain are a great consolation. So just keep calm!»

At the end of panic: a new beginning

Fear and panic are an essential part of human life, just like change. Once we've found that a new beginning is possible after a panic, we can take it all far more calmly. When we realise that something is changing, either within us or outside us, we may well feel stressed, even for months at a time; we feel fear, but we can still suppress that fear. If the situation becomes hopeless, then panic occurs for a short time; we lose our orientation and our belief in ourselves, and our mood becomes depressed. But if we realise that that panic is at work dissolving old, useless neuronal pathways and making way for new ones, then we find it easier to put up with those unpleasant feelings. At the end of the tunnel we see freedom and a new beginning.

Relationships are vital

Jürg Conzett was particularly impressed by the story of the monkeys that Gerald Hüther tells in his book «How stress leads to feelings». Researchers set up a simple experiment to test a new drug against fear and stress. They put a monkey in a cage, then fetched a dog that ran around the cage growling. Naturally the monkey was affected by fear, and the level of stress hormones in its blood shot up. But then they got a second monkey and put it in the cage with the first one. And what happened? The monkeys showed no stress reaction when there were two of them, although the dog was still running round the cage barking. That showed that friendship and partnership are the most important antidote to fear and stress in all social mammals.

So it's important for people to be part of a social structure. Especially at times when the world changes, when parameters change, then love, friendship and partnership can work against fear. In the case of us human beings, our girlfriends or boyfriends do not have to be sitting next to us; it's enough for us to know that there is someone, somewhere, who cares about us and who is prepared to help us. The reactions of the New Yorkers to the catastrophe of 11th September shows how human solidarity helps to counteract panic and fear – suddenly, they all stood by one another and helped each other, although they had the reputation of being ruthless and selfish. Cultivating relationships is one of our most vital concerns, especially in our high-tech age.

Set your antennae on «receive»!

Stress and panic can have a liberating effect. But Jürg Conzett knows of the dangers of constant stress – if no solution can be found, if those broad avenues in the brain are too firmly fixed, then

disaster threatens. If the release of stress hormones goes on too long, illness or helplessness may result. A person may surmount two or three great crises, but not a constant crisis. That makes it vital to develop antennae that enable us as soon as possible to detect changes in the conditions on which our lives depend. Detecting changes around us, listening to others – it all boils down to increased awareness. That enables us to avoid the dangers that come from moving blindly through life and from only allowing our thoughts to move along a small number of motorways. And it allows us to keep all those little, branching routes open. So move carefully, don't wear blinkers, and set your antennae on «receive»! If you do that, you'll live better, in your personal life as well as in the money markets.

Or as the German poet and thinker Johann Wolfgang von Goethe (1749-1832) put it: «Have I got to the age of 80 just to think the same things over and over again? No; I do my best to think something different, something new, every day, so as not to become boring. One must constantly change, renew oneself, rejuvenate oneself, to avoid congealing.»

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