



*Emotions in Finance*  
*Booms, Busts and Uncertainty*

Money is a promise with future benefits or dangers that are unknowable and incalculable. The financial sector is an attempt to beat uncertainty by speculating on whether prices will rise or fall. No matter how often the folly of this opportunism is shown through crisis after crisis of trust, efforts to defeat uncertainty persist. Yet uncertainty is unavoidable. Squeezed in one place, it emerges in another. Based on extensive interviews with leading actors in the financial sector, this book argues that the only way to cope with uncertainty is by relying on emotions and values. It presents an original explanation of how booms and busts arise from internal disputes over the emotions of trust between global financial corporations. Confidence and suspicion alternate between which strategy may beat competitors and who is cheating whom. Just as the first edition warned of continuing dangers in finance's betrayal of society's trust, this new edition provides a sociological explanation of how these irrational quests for certainty contributed to the current financial crisis in the credibility of money.

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# Emotions in Finance

Booms, Busts and Uncertainty

Second Edition

JOCELYN PIXLEY



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Jocelyn Pixley  
Sydney, March 2012

## Abbreviations

AFR	<i>Australian Financial Review</i>
AIB	Allied Irish Banks plc
AIG	American International Group (Insurance)
AOL	America Online
APRA	Australian Prudential Regulation Authority
BIS	Bank for International Settlements
BoE	Bank of England
BoJ	Bank of Japan
CAD	current account deficit
CDO	Collateralised Debt Obligation
ECB	European Central Bank
EMH	Efficient Market Hypothesis
FCIC	Financial Crisis Inquiry Commission (USA)
Fed	US Federal Reserve System
FOMC	Federal Open Market Committee (Monetary policy meetings of the Fed)
FSA	Financial Services Authority (UK)
<i>FT</i>	<i>Financial Times</i>
GDP	Gross Domestic Product
HFT	High Frequency Trading
HIH	HIH Insurance Limited (Australian based)
HSBC	HSBC Bank Australia Limited (founded as The Hongkong and Shanghai Banking Corporation Limited in 1865)
IBGYBG	I'll be gone; you'll be gone (US lending officer slang)
<i>IHT</i>	<i>International Herald Tribune</i>
IMF	International Monetary Fund
IPO	Initial Public Offering
IT	information technology
LBO	leveraged buyout
LIBOR	London Interbank Offered Rate
LTCM	Long-Term Capital Management (US-based hedge fund)

M&A	mergers and acquisitions
MPC	Monetary Policy Committee (Bank of England)
NAB	National Australia Bank
NAIRU	non-accelerating-inflation rate of unemployment
NINJA	No Income, No Job, No Assets (slang for ‘subprime’ type of mortgage loan in USA)
NYT	<i>New York Times</i>
OECD	Organisation for Economic Co-operation and Development
PR	public relations
RBA	Reserve Bank of Australia
REM	rational economic man
S&L	Savings and Loan (known also as thrifts, US mutual savings banks)
S&P	Standard and Poor’s (US-based credit-rating agency)
SEC	Securities and Exchange Commission (USA)
Sifi	structurally important financial institution
SMH	<i>Sydney Morning Herald</i>
UBS	Union Bank of Switzerland AG
VaR	Value at Risk
VIX	Volatility Index
WSJ	<i>Wall Street Journal</i>

## *Interviews*

### **Former central bankers**

#### *Canberra: August 2001*

**B. W. Fraser:** former Governor Reserve Bank of Australia (1989–96), then board director Members Equity and Industry Super, now a number of advisory boards. Second interview, 29 June 2002.

#### *UK: March 2002*

**Sir Alan Budd:** former Chief Economist for HM Treasury (1991–97), former Chief Economist of the Bank of England, also former member Monetary Policy Committee (1997–2003), Office for Budget Responsibility, Treasury (2010), then Provost, Queen’s College, Oxford.

**The late John Flemming:** former Chief Economist (1984–91) and Executive Director (1988–91) of the Bank of England; then Warden of Wadham College, Oxford.

**Charles Goodhart:** former Chief Adviser Bank of England, former member of the Bank of England’s Monetary Policy Committee (1997–2000), now Emeritus Professor of Banking and Finance at the London School of Economics.

#### *USA: February–March 2002*

**Alan Blinder:** former Vice Chairman of the Board of Governors of the US Federal Reserve System (1994–96), now Professor of Economics, Princeton University, NJ. Later interview and emails.

**Lyle Gramley:** former Governor of the US Federal Reserve System, then Mortgage Bankers Association of America, Washington DC, now Potomac Research Group.



## Financiers and bankers

### *London*

**Roderick Chamberlain:** Coutts Consulting Group; formerly Banker and Securities Broker in the Royal Bank of Canada, Nomura International; Trustee (from 1987) then Chair (1997–2000) of the Institute of Business Ethics, March 2002, and discussions since.

**Henry Dale:** former banker for fifteen years at Crown Agents, October 2000.

**Michael Lazar:** formerly Schröder's Stockbrokers; also HM Treasury (to 1994), June 2001: interviews and emails onward to the present day.

**Tim Shepherd-Walwyn:** formerly Bank of England, then Securities and Investment Board; former Head of Risk Management at SBC (now UBS); also Barclays Bank, London March 2002, and discussions and emails since.

### *New York and Pennsylvania: 2001–2*

**John Bogle:** founder of Vanguard Group of Mutual Funds; Valley Forge, PA, March 2002 and later phone interviews.

**Henry Kaufman:** formerly Vice-President, Salomon Inc. 'Dr Gloom of Wall Street', 29 May 2001 and 19 March 2002.

**Henry Ouma:** former Managing Director, UN Pension Funds, NYC May 2001.

**Chia Siew Wong:** formerly an investment manager for sixteen years with a large Wall Street investment firm and other investment firms, May 2001 and many discussions later.

### *Sydney: February 2002*

**John Edwards:** former Chief Economist HSBC, Australia and New Zealand, now Board Member of the Reserve Bank of Australia (2011).

### *Zürich, Switzerland: April 2002*

**Paul Chan:** Managing Director, Group Risk Analysis, UBS AG, Financial Services Group, Bahnhofstrasse 45, Zürich.

*Interviews*

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**Dr Werner Frey:** former CFO and Director Bankleu, and then Credit Suisse, Zürich, now Association for Financial Markets in Europe. Many London interviews subsequently.

**Georges Schorderet:** CFO Swiss Air; formerly CFO Alusuisse Lonza, Zürich.

**Finance Journalists**

*New York: September 2000*

**Alan Abelson:** former Editor, now Lead Columnist at *Barron's*, the *Dow Jones Business and Financial Weekly*. Second interview, May 2001.

**James Grant:** Publisher-editor *Grant's Weekly Interest Rate Observer*, regular finance commentator on CNN and panellist on *Wall Street Week*.

**Brian Hale:** Wall Street correspondent, *Sydney Morning Herald* and then *The Age*, interviews and emails subsequently.

**Dan Kadlec:** then finance journalist *Time Magazine*, Sixth Avenue, New York February 2002.

**Anya Schiffrin:** former reporter for *Dow Jones*, now School of Public Affairs, Columbia University, and later.

*London*

**Larry Elliott:** Economics Editor, *The Guardian* October 2000 and later.

**Graham Ingham:** then Economic Journalist, *The Economist*, St James Street, London; formerly BBC, March 2002.

**Robert Peston:** former Finance Editor, *The Financial Times*, now Business Editor, BBC, March 2002.

**Dominic Ziegler:** then Finance Editor and now Asia Editor, *The Economist*, St James Street, London March 2002.

*Sydney: January 2000*

**V. J. Carroll:** former editor, *Australian Financial Review* from 1964; former editor-in-chief, *Sydney Morning Herald* until 1984; many interviews since.

Trevor Sykes: *Australian Financial Review* and ‘Pierpont’ column.

### **Financial Public Relations**

**Jonathan Birt:** Financial Dynamics Business Communications, Holburn Gate, London, March 2002.