

The Observing Ego

Trading manager's ask traders to change certain behaviors so they'll become better traders. This research note discusses the observing ego which can be used as a tool to assist the trader in achieving the goal of changing a behavior.

Definition

The observing ego is "the capacity to observe themselves at any given moment in time or the capacity to observe others."¹

The observing ego "is like a fair witness observing and commenting on the experience of the moment."²

"...a person's observing ego develops the capacity to step outside of his or her experience and observe the activation and movement of a pathological complex."³

Freud (who basically invented the term observing ego) described it as a split in the ego; something that actually allows the ego to observe itself.

Here is another definition from Alan McAllister, "an 'observing ego' which is able to observe the workings of the normal conscious mind (ego)."⁴

The Stonyhill institute says, "Our observing ego is the part of our psyche that can awaken and learn to intentionally pay attention to our thoughts, beliefs, emotions, behaviors, and the moment-to-moment reality of the world around us."⁵

I describe the observing ego as stepping outside myself and looking at the situation from a non-emotional, detached place.

Background

Teaching from personal experience is what I do best. So, these examples are from just that, my experiences.

A little background first. I wasn't an analytical person by any standards before the age of 38. By that age I had ten years of therapy under my belt. Most of the therapy was Jungian based. The most valuable tool I received from his work was the ability to observe my feelings. Brenda Donahue has a doctorate in Jungian psychology and she was one of several therapists I worked with. She taught me how to observe my ego (my feelings, as I say). Hopefully I can pass some of that along to you, the trader.

Humans think and feel. Before my therapy I felt, period. There was no thinking involved in my world. That's just the way it was. Between the ages of 27 and 38, I began to learn about thinking through intensive psychotherapy. At the age of 38, I began to read, a lot. After 10-years of

¹ One Map for Mystery, by Brenda Donahue, p22

² ibid p24

³ ibid p25

⁴ http://shell.dim.com/~ahm/matrix/SpSt/mind_w_psych.htm

⁵ http://www.stonyhill.com/newsletters/feb_13_2008.htm

sobriety, it was as if my brain had rewired itself. I read hundreds of books. With that reading I also learned to think. With that thinking I honed my skills in observing my ego (my feelings).

Example

I'm driving my car in the 'fast lane'. The guy in front of me is doing 65 mph and I want to do 70. *Why won't he move over? This is the 'fast lane'.* Cars are racing up behind me and one is now on my bumper. The familiar feeling of anger washes over me. Beep beep. Cursing, more beeping.

The Observing Ego:

Wow, I'm angry. I'm breathing really fast. Sometimes I'm not even breathing, I'm holding my breath. I'm squeezing the steering wheel with my hands, tightly. My entire body is tense. This feeling is familiar. I'm used to it. Yet, it's uncomfortable. My energy gets burned up by the time I get home. Then, I don't have enough for my kids, and my wife. Maybe I could try moving over to the lane next to me. The 'slower lane'.

But if I do that then this guy will get away with being a jerk. I hate jerks. They're everywhere. In the line at the grocery store, on the roads, at work, my neighbor, my cousin...I can't let that guy get away with being a jerk because then I'll be a wimp. I'm going to speed around him and then maybe slam on my brakes to teach him a lesson.

The Observing Ego:

Think about that maneuver for a second. You're going to swerve to the right; thereby endangering drivers to your right, then cut back to the fast lane and slam on your brakes to teach this slow driver a lesson thereby endangering the slow driver and those behind him. Also, what if the guy hits you when you slam on your brakes? For that matter why would you use that maneuver to teach him a lesson when you are going to cause damage to your car? This makes absolutely no sense. It's simply illogical. My body is no longer tense. I'm breathing. I'm moving over to the slower lane.

I just let that guy get away with murder. I'm a wimp.

The Observing Ego:

I'm aware that I'm tense again. I'm angry and breathing shallowly. I feel the same way I did in the other lane. Let it go and breathe. Feel your hands loosen on the wheel. Let my muscles relax.

I arrive at home, in the Chicago suburb of Elmhurst.

The Observing Ego:

I'm very aware of having energy and not feeling depleted. That driving exercise wasn't easy. However, I do have energy.

End example.

Practicing that sort of thing isn't simple. It can only be done in the moment. It can't be done all at once. Integrate that into your life and it won't be a chore, it'll be a part of your life.

The example I used above can be brought into many life-situations. For example, trading.

If I never get out of that lane, things will never change for me. I'll find myself drained of all my energy when I get home. And, I don't want that. I want to feel the opposite. However, to achieve that I must get out of that lane. Nothing will ever change until I do.

What makes a trader believe that things will change when the trader commits to the same behavior everyday?

Nothing will change unless you practice changing. The only way you can begin to practice is to step back and observe the behavior. To observe the behavior you must have the capacity to think without emotion clouding the thinking process.

How

“The observing ego develops from the archetypal/developmental process of thinking”.⁶

I wrote above that I began learning about the process of how to think between the ages of 27 and 38. That’s a very long time. I don’t expect anyone to ‘get-this’ quickly. It’s a process that must be integrated gradually. I’m 46 years old and I’m still trying to ‘get-it’. That said, here’s a few ways to begin practicing using your observing ego.

The first step is to recognize that there’s a behavior you’re trying to change. Your level of frustration has built up around this particular behavior and you are most likely at your wits-end. Perhaps it’s a cycle of trying to trade during economic releases? Every time there’s a number you try to get on-board but seem to end up down money 30 minutes later. It’s frustrating.

Day-in and day-out you work hard, trading. You sit in front of the computer and trade those economic releases. Inevitably you’ve buried yourself in a bad PnL 30 minutes after the number. Now, you have to dig out (if you haven’t hit your stop loss yet) and that one thought alone sends you over a mental cliff. Soon you’re bemoaning this fact to your fellow trader or worse you’re running that scenario over and over in your head.

The Observing Ego:

Stop. Breathe. Relax your body. You’re very use to this scenario and as uncomfortable as it is you still do it every time there’s a number release. It’s becoming a ritual. Let’s do something different. There are a couple of choices. You can trade on the SIM for the number, then, analyze your trading. Or, you can paper-trade.

What you will experience after practicing using your observing ego is an interruption from another part of you that really doesn’t want to do any of that. It’ll make excuses and try to ‘what-if’ this or what-if that...

That is your Complex. That’s what Jung calls it. I won’t go into a detailed description of the Complex in this paper. I’m simply introducing a term. All you need to know is you’ll get ‘push-back’ when you try something new, like this. That push-back is coming from your complex. Acknowledge it, then, let it go. You can’t ignore it. Believe me. It can’t be ignored. Just let it float away.

When I go through this process I completely cut myself off from emotion. I have to in order to observe my emotions. Uh?

Example

I’m in a situation that has me steeped in fear. It doesn’t matter what that situation is what matters is having the ability to recognize it, then, stop myself from doing something stupid or regretful.

⁶ One Map for Mystery, by Brenda Donahue, p24

When I get in a fearful place I observe what is taking place in my body. The feelings that accompany fear, for me, usually involves a swarm of bees flying around the inside of my chest, then, my stomach ‘falling’ as if I’m dropping down a roller coaster incline. It isn’t a fun feeling. I really want it to go away. One way to make the feeling go away is to counter it with anger. If another person is ‘causing’ the feeling (my perception) then I would simply start yelling at them. The anger would balance the fear, and I’m much more comfortable with anger. However, where would that leave me? It would leave me in a place I’m familiar with but I don’t desire to be there any longer. Remember, I’m trying to change an old habit.

The alternative is to observe the fear running around my chest and stomach and acknowledge it, in my head, literally. Actually state that I’m feeling these sensations in my body, then, note that I have an option on how to act. This way I have a choice which is better than feeling powerless and moving into anger which would have left me in a bad situation.

Conclusion

Traders are natural reactors. They react to situations in the blink of an eye. Many times there is no time for thought. That’s what makes this exercise all the more difficult. I’m asking the trader to slow down and observe their behavior. I know *that* isn’t an easy task.

If you, the trader, want to change something start by using the tool called ‘the observing ego’. Observe your feelings. What is going on inside? Label it. Identify it. Acknowledge it. Watch it float away. Breathe.

These actions will cause you to be uncomfortable. That’s because you’ll be in unfamiliar territory. You’ll be outside your comfort zone. Practice stepping outside that zone and seeing what it’s like when you let go of the old and invite the new. Do it slowly.

Thank you,
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Further Reading

1. One Map for Mystery, by Brenda Donahue (Charles C. Thomas Publishers, LTD)
2. The Portable Jung, Edited by Joseph Campbell
3. The Ego and the Id, by Sigmund Freud

Although I list Freud’s work here I must state that I’m a huge fan of Jung, not Freud. Yes, Freud invented the term observing ego, but it was Jung who truly brought it to where it is today, especially through his work of the human *Complex*.

The book by Brenda Donahue, above, explains Jung’s work in lay terms. I can’t recommend it enough. If I had to pick one book from the list I’d pick hers.

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