

Financial alchemists and financial shamans

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Abstract: Professional money management appears to require little skill, yet its practitioners command astronomical salaries. Singh's theory of shamanism provides one possible explanation: Financial professionals are the shamans of the global economy. They cultivate the perception of superhuman traits, maintain grueling initiation rituals, and rely on esoteric divination rituals. An anthropological view of markets can usefully supplement economic and psychological approaches.

The financial sector has generated more billionaires than any other part of the world economy (Peterson-Withorn 2016). Although financial intermediaries do play crucial roles in the economy – matching savers to borrowers, pooling risk across individuals, allocating capital – economists struggle to explain why money managers themselves command such enormous salaries, when there is overwhelming evidence that money management requires very little skill at all. In this commentary, I argue that Singh's cultural evolution theory of shamanism suggests a provocative solution to this puzzle.

Financial theory tells us that the prices of securities incorporate all relevant information, so that public information such as past prices and company news cannot be used to predict future prices. In this line of thinking, financial markets are *efficient* (Fama 1970). The key empirical evidence for this proposition is the fact that asset managers who actively buy and sell securities do not outperform the market as a whole (Jensen 1968; Wermers 2011). In fact, managers not only fail to outperform the market, but they also do not even systematically outperform *each other*: The top performers in one year tend to be average the following year (Malkiel 1995). If “a blindfolded chimpanzee throwing darts at the *Wall Street Journal*” could do as well as a typical fund manager, as the financial economist Burton Malkiel (2015) suggested, why are there so many billionaire fund managers (and so few billionaire chimpanzees)?

Singh's cultural evolutionary theory of shamanism suggests one hypothesis for why fund managers command such astronomical salaries: They are the shamans of the global economy. Just as cultural evolution has produced shamans believed capable of controlling unpredictable events such as weather and disease, so has cultural evolution produced financial shamans whose customers believe they are able to forecast stock prices accurately. On this account, the money management profession has adapted to the contours of the human mind.

The mystique surrounding financial professionals resonates with practices associated with shamans in small-scale societies. The metaphors we use to describe financial professionals allude to superhuman powers such as magic (“financial alchemy”) and omnipotence (“masters of the universe”). Cultural representations of financial professionals tend to emphasize their differences from ordinary humans, for example, exhibiting extreme greed (e.g., Oliver Stone's *Wall Street*) or hedonism (e.g., Martin Scorsese's *The Wolf of Wall Street*). Indeed, it is commonly believed that financial professionals are disproportionately psychopaths (Gregory 2014). To the extent that psychopathy violates our intuitions about normal human behavior, managers who cultivate this perception may be seen as likelier to possess superhuman powers of market divination. In this sense, (perceived) psychopathy may actually breed trust.

Like traditional shamans, money managers are initiated to their profession through grueling rituals that emphasize their superhuman qualities. Newly minted financial analysts routinely work more than 70 hours per week (Hewlett & Luce 2006), with 100+-hour weeks not unheard of. I once taught a student planning

a career in finance who seemed to take a certain pride in the high suicide rate in his aspiring profession. (It is interesting to note that the other group of professionals well known as working extreme hours – medical doctors – also may benefit from shaman-like qualities.) If financial professionals do not require sleep, who's to say that they cannot also predict the future?

Some financial professionals also are trained in divination rituals such as technical analysis and charting (e.g., Murphy 1999). A technical analyst examines the chart of a company's stock price, looking for patterns to foretell the future. Of course, a stock that has been rising is expected to continue rising, and a stock that has been falling is expected to continue falling. Technical traders search for a variety of more esoteric signs, too: the “head and shoulders” (two low peaks surrounding a high peak, believed to signal a trend reversal); the “cup and handle” (a large U shape followed by a smaller U shape, believed to prefigure a trend continuation); the “double top” (two peaks around the same price, believed to foretell a downturn); and many others. Never mind that these patterns have little or no predictive power (Malkiel 2015). Indeed, Malkiel has likened technical analysis to astrology.

Technical analysis is a textbook example of how we can be “fooled by randomness” (Taleb 2001), finding patterns in noise (Chapman & Chapman 1969; Johnson et al. 2014). Indeed, the plausibility of this practice likely fueled the human propensity for storytelling – a particularly critical aspect of judgment and decision making under conditions of “radical” or “Knightian” uncertainty (Knight 1921) in which precise probabilities cannot plausibly be assigned. Investment outcomes are a paradigmatic example of this (Tuckett 2011; Tuckett & Nikolic 2017). Studies in experimental finance confirm that investors rely on narrative thinking to anticipate prices (Johnson & Hill 2017; Johnson & Tuckett 2017). People not only project past trends into the future (Andreassen 1990), but also do so in sophisticated ways that have some kinship to the methods of technical analysts (Johnson et al. 2017). The practice of technical analysis is intuitively plausible – despite the evidence for its uselessness – as a consequence of deep-seated psychological tendencies.

Whereas the physical and biological sciences have made good headway in understanding weather and disease, social science has been less effective in understanding economic outcomes (Hayek 1989). Financial shamanism thus maintains plausibility in an industrialized world where other forms of shamanism have collapsed. Nonetheless, just as the mind (Pinker 1997) and culture evolve (Boyd & Richerson 1985), so do markets (Schumpeter 1942). In recent decades, far more assets have come to be passively rather than actively managed because of the flourishing market in indexed mutual funds (Marriage 2016) pioneered by companies such as Vanguard in the 1970s.

Our financial institutions are adapted to economic, political, and technological conditions, and they may well be adapted to the contours of the human mind, too. It is yet to be seen whether the forces of market evolution will further challenge the practice of active money management, even as cultural evolution seems to sustain it.

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A ritual by any other name

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