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Unconscious Herding Behavior as the Psychological Basis of Financial Market Trends and Patterns

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Abstract

Human herding behavior results from impulsive mental activity in individuals responding to signals from the behavior of others. Impulsive thought originates in the basal ganglia and limbic system. In emotionally charged situations, the limbic system's impulses are typically faster than rational reflection performed by the neocortex. Experiments with a small number of naïve individuals as well as statistics reflecting the behavior of large groups of financial professionals provide evidence of herding behavior. Herding behavior, while appropriate in some primitive life-threatening situations, is inappropriate and counterproductive to success in financial situations. Unconscious impulses that evolved in order to attain positive values and avoid negative values spur herding behavior, making rational independence extremely difficult to exercise in group settings. A negative feedback loop develops because stress increases impulsive mental activity, and impulsive mental activity in financial situations, by inducing failure,

increases stress. The interaction of many minds in a collective setting produces super-organic behavior that is patterned according to the survival-related functions of the primitive portions of the brain. As long as the human mind comprises the triune construction and its functions, patterns of herding behavior will remain immutable.