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The Irrelevance of Unsuccessful Traders

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A COMMENTARY ON Alasdair MacIntyre (2015), "The Irrelevance of Ethics," in A. Bielskis and K. Knight (eds.), ***Virtue and Economy: Essays on Morality and Markets*** (London: Routledge): 7–21, https://doi.org/10.4324/9781315548067

ABSTRACT

Alasdair MacIntyre argues that moral virtues are antithetical to what is required of those who trade in financial markets to succeed. MacIntyre focuses on four virtues and argues that successful traders possess none of them: (i) self-knowledge, (ii) courage, (iii) taking a long-term perspective, and (iv) tying one's own good with some set of common goods. By contrast, I argue that (i)–(iii) are, in fact, traits of successful traders, regardless of their normative assessment. The last trait – caring about the common good – is often counterproductive in most for-profit ventures, including trading, and so singling out traders is inappropriate.

IN A PROVOCATIVE paper, Alasdair MacIntyre (2015)[2] argues that not only is ethics irrelevant to business education, but that moral virtues are antithetical to what is required of those who trade in securities and currency in the financial sector to succeed in their profession. In his words: "the inculcation of qualities of moral character is no way to

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[2] Parenthetical page references not otherwise attributed are to MacIntyre (2015).

prepare someone for a rewarding career in the financial sector. Ethics is not just irrelevant. It is a probably insuperable disadvantage" (12). MacIntyre focuses on four traits that we must acquire if we are to be morally virtuous agents: (i) self-knowledge, (ii) courage, (iii) neither focusing on the present at the expense of the future nor the future at the expense of the present, and (iv) tying one's own good with some set of common goods (9–10). By contrast, according to MacIntyre, successful traders must (i) be too self-confident, (ii) aim to transfer the bearing of risk to others, (iii) focus almost exclusively on the present and the near future, and (iv) consider only themselves, their firm, and some of their clients rather than the common good (10–11). Since the traits required to be a virtuous person are the opposite of the traits required to be a successful trader, trading is, in MacIntyre's view, antithetical to ethics.

While I do not necessarily share MacIntyre's Aristotelian-Thomistic ethics, in this Commentary I set such disagreements aside. Instead, my quarrel with MacIntyre's argument is with his factual understanding of what character traits help a trader be successful *qua* trader. I argue that not only are three character traits of a virtuous person – self-knowledge, courage, and taking a long term perspective – not antithetical to success in trading, they actually are central character traits of a successful trader. Regardless of the normative assessment of such traits, these are traits that a prudential trader possesses. The only moral virtue discussed by MacIntyre that a successful trader need not possess – taking *all* others into account – is often counterproductive in most for-profit ventures, and so singling out traders is inappropriate.[3]

Four Criticisms

First, self-knowledge. While MacIntyre begins by only asserting that self-confidence is an indispensable personality trait of a successful trader, self-confidence does not entail a lack of self-knowledge. To be charitable, we should read MacIntyre's criticism not as a claim that traders must merely be self-confident to succeed, but that they must be *too* self-confident, i.e., overconfident. Such a reading is charitable because if it were true that successful traders must be overconfident, it

[3] For other works that deal with MacIntyre's arguments, see Rocchi and Thunder (2017); Wyma (2015).

would indeed support MacIntyre's conclusion that successful trading is antithetical to possessing the virtue of self-knowledge. MacIntyre claims that it is "difficult not to conclude that . . . an ability to see things – including oneself – as more promising than they are is an essential ingredient in trading success" (10). Yet the opposite is true. Overconfidence is a harmful trait for a trader who wishes to be successful, and there is ample empirical evidence to support the claim that self-knowledge and avoiding over-confidence are both important for the successful trader, whether it is because overconfident traders hold under-diversified portfolios (Odean 1998) or they execute more trades than are necessary (Barber and Odean 2000), among other reasons. Thus, contrary to MacIntyre's claim, the moral virtue of self-knowledge, rather than being detrimental to success in trading, is essential to it.

Second, MacIntyre makes clear that the moral virtue of courage requires the individual to calculate risk accurately and to take risk when it is appropriate. However, MacIntyre also stresses that "in any case the courageous agent puts her or himself on the line. If things go wrong, she or he will be among those who lose out" (9). The best way to understand MacIntyre's claims regarding traders is that while a successful trader is one who calculates risk accurately, which is admirable, she does so in order to minimize her own exposure to risk and to shift it to others. By aiming to avoid risk rather than taking it, the successful trader acts cowardly and "fails" as a virtuous and courageous risk-taker. Thus, it might seem that traders, to be successful, must lack the virtue of courage. But again, MacIntyre is wrong regarding traders. On a variety of views (e.g., Goss and Yamey, 1976; Telser 1981), markets (specifically futures markets) offer a platform in which risk can be either increased or decreased, depending on one's needs and goals. Yet markets need liquidity to function. Speculative traders, by the mere act of trading and *increasing* their risk, both create opportunities for themselves to make a profit, as well as provide the markets with much-needed liquidity. A trader who would seek to avoid risk and thus "fails" as a courageous risk-taker would avoid trading and entering the market at all. According to Goss and Yamey (1976: 45),

> [i]t is necessary that the market for the commodity is extensive enough to attract and sustain a large body of non-hedging traders (scalpers and other

> speculators) so that the liquidity of the market and continuity of trading can be maintained.

In exchange for this service, speculative traders gain the prospect for *possible* profit. When traders succeed in profiting it is because they are neither cowardly nor rash, neither assuming too much nor too little risk. They are, as MacIntyre defines it, courageous.

Third, taking a long-term perspective. MacIntyre views this as understanding oneself as living out a whole lifetime, which can be done either well or poorly. Often, traders do indeed face significant monetary and social incentives to focus on short-term profit.[4] Nevertheless, a prudential trader will recognize that their life and career do not span only a few years but rather whole decades. Prudence requires a trader to take a long-term perspective. To be a successful trader over a *lifetime* requires of the prudential trader to make decisions that might have negative consequences in the short term. A trader might reduce risk exposure (and subsequent profits) to lower stress, she might forego working for a company because it focuses on short-term rewards and has high burnout rates, and she might avoid excessively risky trades that will leave her jobless, broke, or both. Those traders who only focus on the short-term might shine bright for a few years, but they tend to eventually crash and burn at some point in their trading career. Thus, prudence requires a successful trader to look beyond the short-term.

Lastly, MacIntyre rightly claims that often (though not always) traders fail to view the common good as inseparable from their own success. While speculative traders contribute to the common good by providing markets with much needed liquidity, they probably do so unintentionally. If traders took the common good more to heart, it might be better overall (although as Mandeville's (1732) fable of the bees suggests, this might not be true). Nevertheless, the traders' failing towards excessive self-interest that MacIntyre highlights, is also extremely widespread in other fields. Usually, to be successful in most for-profit ventures one must draw a line and focus on one's own good and the good of the company rather than on the common good. Such

[4] Some traders take long-term trading positions (a position that they hold for several years), which requires them to approach their work through a long-term perspective. For example, some currency forward traders sometimes take and hold positions for well over five years. I thank an anonymous reviewer for raising this point. Nevertheless, this is probably not the kind of long-term perspective MacIntyre has in mind.

behavior is not even limited to for-profit ventures. In the public sector, even a well-intentioned public servant will probably put her own good and the good of her country above the good of the billions of people who are not her compatriots. In academia, it is easy to come up with many examples of academics that are considered successful despite caring little for their fellow colleagues, their students, or the profession at large. True, some types of ventures are such that the common good and the private good are admirably directly linked. But these are probably the exception rather than the rule. While traders fail in this regard, singling them out for something not unique to them is inappropriate.

Closing Thoughts

MacIntyre claims that his thesis applies not only to traders, but to anyone employed in the financial sector as a whole. My focus remains narrowly on traders, and only on a particular kind of trader—speculative futures traders. Among other problems with MacIntyre's argument is his willingness to make sweeping claims about a whole employment sector. Given the complexity of the sector and the numerous different roles, it is difficult to see how such claims can be true. In this regard, I do not follow suit. While I focus only on a narrow area, I do so with confidence.

MacIntyre believes that "just as the successful training of a boxer will destroy his prospects as a violinist" (12), so too will efficacious moral training destroy ones' prospects as a trader. I have argued otherwise. Ethics, as MacIntyre conceives it, is actually for the most part relevant to successful trading. This Commentary leaves unanswered whether ethical education, of the type conducted in business schools, is indeed efficacious in turning students into more moral agents. Nevertheless, at this point we can, contrary to MacIntyre, at least view ethical education as something that has the potential to help traders both become better moral agents, as well as more successful traders.

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