Chapter 11

Neuro-Linguistic-Programming-Based Modeling of Stock Markets

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ABSTRACT

Speaking of the preliminary findings of this chapter and considering empirical data observed in the course of stock exchange trading, it is possible to forge a connection between the actual behavior of the investors and the NLP meta-program classes. In particular, there is a palpable correspondence between the 13 distinct meta-program categories affecting workplace motivation and performance, commonly known as the language and behaviour profile or LAB Profile, of Shelle Rose Charvet, and the behavior patterns of investors. This may represent a development of the idea of “the conventional wisdom” formulated in his time by John Kenneth Galbraith. However, in its new incarnation of collective conscious and collective subconscious, it may affect decision making processes around the globe.

INTRODUCTION

The world at this stage is barely starting to sluggishly recover from the raging tempest of the financial crisis of 2007-2008. One is witnessing a unique process: the world financial system is being slowly dismantled, and in its stead something new is being created. But what is it? For the time being, none can tell. The only thing that one knows for sure is that the rules of the game are drastically changing. This is particularly true for the stock market. Sooner or later, any and every most reliable financial system would malfunction. When this is the case, the majority of its participants falls into panic and is very likely to make multiple mistakes. Only a select few, having the expertise, know-how and innovative analytical implements manage to stay ahead of time and to make profit while the rest fall prey to the depredations of crisis.

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The purpose of this work is to outline a path to a method, based on institutional and in particular behavioral economic approach that would allow one to effectively predict the conduct of investors in a given stock market, be it a local entity or a transboundary unit with a focus on the erratic behavior and how it can be used in day-to-day investment practice.

BACKGROUND

For those economists and financiers who may not be familiar with neuro-linguistic programming, it would be opportune to give a brief description of this branch of knowledge.

Let us begin with programming. Each person, by the instrumentality of different means and factors has managed to program themselves to excel at a certain number of tasks, to be mediocre at various tasks and awful in other areas. If one observes and listen carefully to how a person behaves and communicates by means of their language (both verbally and nonverbally), one may glean an understanding of how, from the neurological prospective, said person puts his or her experience together to be excellent, mediocre or awful at the tasks that he or she performs. Hence the name of this field of study - neuro-linguistic programming (NLP).

The applications are many, various and profound. It means if someone is highly proficient/skilled at something and you are trained in certain NLP protocols, you can perform something that is called modeling. In this context, modeling means determining how it is possible for said person to do what they do. NLP searches for the answers to questions such as: “What are the absolute essentials” or “What is that person paying attention to or ignoring, sequentially and/or simultaneously, to be able to do it?” If one could discover the answers to these and some other questions, then one could teach that skill-set or behavior to other people and even learn it yourself, but what is more important - one could predict behavior responses of different individuals.

In more scientific terms, NLP is an approach to communication, personal development, and psychotherapy created by Richard Bandler and John Grinder in California, United States in the 1970s. NLP’s creators claim there is a connection between neurological processes (neuro-), language (linguistic) and behavioral patterns learned through experience (programming), and that these can be changed to achieve specific goals in life (Tosey & Mathison, 2006) (Dilts, Grinder, Delozier, & Bandler, (980).

The Language and Behaviour Profile (LAB Profile) is a model developed by Rodger Bailey who was an avid researcher and developer in the NLP field. He created the LAB Profile in early 1980’s. It is based on a set of NLP patterns called Meta Programs, developed at the time by Leslie Cameron-Bandler and others (Bandler & Grinder, 1979). These represent the filters that we use to make up our model of the world.

Every person has a certain number of filters by which they let in certain parts of the tangible world. In his book called “The Logical Structure of Linguistic Theory” (Chomsky, 1975), Noam Chomsky states that there are three processes by which people establish the filters of their individual Model of the World, in other words, their personal reality:

The first process is called deletion. One deletes much information from the surrounding environment and internally. In his 1956 work entitled “The Magical Number Seven, Plus or Minus Two: Some Limits on Our Capacity for Processing Information” (Miller, 1956), George Miller, an American Psychologist, predicated that our conscious minds are only capable of handling seen plus or minus two bits of infor-