

Chapter 1

From Wall Street to the Ivory Tower and Back

Monday, April 18, 2011, 12:45 AM

Michael rolled his over stuff duffle bag into the taxi queue at O’Hare. He’d stayed an extra day because the champagne powder just kept on coming but that meant he had just barely made it down the mountain in time to slip through the closing doors on the evening’s last flight out of Denver. The 80 people now ahead of him combined with the 15 degree wind-chill compelled an audible, “You’ve got to be kidding!” Getting to ski with his younger brother Tom, while always a blast, drove a hard logistical bargain—particularly when he thought of the econ undergraduates he would be facing on maybe five hours of sleep.

“Oh well,” he thought, “next year when I’m back to being the runt on the trading desk, I won’t be skipping town for four days just because a blizzard rolls into Aspen.”

A decade ago, Michael had been recruited to be a proprietary trader at Schoenberg Trading. He’d accepted against his father’s will because in the late 1990s, the market seemed to print money—at least for anyone who understood the momentum game of stocks and because the day-to-day work actually felt to him a lot like chess, something he had excelled at

even as a kid. For a few years, it was great. He could wear jeans, the firm bought lunch, and he was only supposed to trade from 8:30 to 11 and 1:30 to 3. The firm provided what were then cutting-edge analytics on the relative strength of each industry group and taught everyone to trade by buying the strong and selling the weak. It worked until it didn't.

Most of the guys learned how to be long stocks but when the Internet bubble burst, they couldn't, for some inexplicable reason, apply the same idea on the downside. The firm closed their Chicago office and in the fall of the 2002 bear market, Michael returned to Chicago University for his MBA. He thought taking on a purely quantitative view of markets would be the best alternative.

After he got to Chicago, however, he found the classes too management focused. He cared about markets. Of course, Chicago as an institution had a long history of market theory; so with a little finagling, he segued out of financial analysis and into decision theory—a PhD track. For a while it felt exhilarating just to be able to cogitate. He had grown up immersed in books and spending his days contemplating models of decision making suited him just fine.

In the aftermath of 2008, however, headhunters surprisingly began to call. He wasn't even sure how they found him. He wasn't big on LinkedIn, Twitter, or Facebook and didn't have anything resembling a raging social life. He turned the first two down flat. He had no interest in pumping out a bunch of data that some portfolio manager or marketing type would use for raising capital but otherwise cast aside. Eventually, however, when the offer clearly included the chance to sit on the trading desk and potentially manage a portfolio himself, he could no longer resist. Inside, he realized he really did want very much to return to “*running money*.”

Michael's father, Richard, predictably had criticized Michael's decision. He had loaned Michael part of the \$100,000 tuition and would tolerate slow payback as long as Michael stuck with academia. He didn't approve the first time Michael had gone to Wall Street, and his return lit up something akin to a simmering rage. Richard Kelley believed that

speculators abjectly lacked morals and, even though he dealt with hedge funds in his role as chief financial officer at an insurance company, he pejoratively referred to them as “necessary evils.”

Finally, through his haze of half-awake thoughts, Michael realized that the people behind him were moving him forward. A bevy of cabs arrived and the line lurched forward—putting him face-to-face with a tall brunette he’d noticed on campus once or twice. Instantaneously weighing the benefits of jumping the line versus humiliation, he summoned his most gentlemanly voice and asked, “Pardon me, but don’t I see you around at Chicago U?” It worked.

In the cab, Renee explained her graduate work in the university’s Biopsychology Institute. At first, Michael admitted he needed the layman translation of “researching the reciprocity between mind and body all the way down to cellular mechanisms and their ties to behavior and social context.” Renee gave it another try not yet knowing herself Michael’s reason for being at Chicago U. “Well, look,” she said, “for a long time and even today in some circles, not only is the mind different than the brain but the brain is virtually detached from the body—at least in terms of theories about how we think and decide. The work in my department brings all three back together.”

Michael, as a decision researcher himself felt intrigued. “Amazing” he said. “I teach undergrads out of the decision research center over on Hyde Street.”

“Really? I didn’t know we had a Decision Center.”

“Well, right back at you” he said with a smile. “I’ve been here for over eight years and never heard of a Biopsychology Institute!”

“Guess we’re even then,” she said with a laugh. “So what exactly does this decision department do, anyway?”

“Well, if you read the brochures, they say we study ‘the processes by which intuition, reasoning, and social interaction produce beliefs, judgments, and choices.’ Most people think we are the behavioral economics department but labeling it as ‘behavior’ narrows the scope to what seems to me to be just the end result. I mean, what causes the behavior?”

“Exactly,” said Renee. “Basically, that’s our philosophy too!”

Abruptly, he realized they’d arrived on campus. Michael insisted Renee be dropped off first, and he wouldn’t let her give him more than \$15 for the \$52 fare. “I got to jump the line to ride with you, so we’re square,” he said. As he stuffed the bill in his pocket, he happily realized her card was sandwiched within the money.

Monday Afternoon, April 18, 2011

With a noontime nap under his belt and a quad Grande Latte at his side, Michael settled into reading the stack of opinion essays he’d received that morning. The first one was entitled, “Markowitz & Beliefs.”

Harry Markowitz had won a Nobel Prize for figuring out what back in 1952 was called “Modern Portfolio Theory” and for what some consider the first truly quantitative approach to asset allocation. This title suggested the student had a psychological take on the mathematical approach. “Hmmm ... interesting” thought Michael just as he heard his father’s ring tone. Seemingly always at the worst moment, Richard called. He probably only wanted to find out what his brother Tom was up to. When they were kids, Dad always favored Tom, the jock. Michael’s GPA never garnered much enthusiasm (or even attention for that matter); but after Tom got cut from the US Ski team and moved to Aspen to patrol, his father rarely, if ever, spoke to him. He used Michael—or tried to use him—as his messenger. Michael hit IGNORE and assuaged his guilt by telling himself he would call him back when he’d finished grading this stack of papers.

Somehow three hours then evaporated and Michael wanted a break. The sun shone through his windows and the temperature outside seemed to have sky-rocketed. As he rounded the first corner on his way back to Starbucks, he stopped into the department office to see if anyone wanted to join him.

“Michael, good to see you! I was just wondering when you were coming back,” said Professor Zinnis, Michael’s dissertation advisor and one of the bedrocks in the department.

“Say,” he continued, “A few weeks ago, I agreed to jointly sponsor a guest lecture series with a professor in the psychology department and I thought, given that it has a Wall Street bent, it would be right up your alley.”

“Really? ... what’s the actual subject?” said Michael.

“Well, you probably haven’t heard of them but we have a department here called the Biopsychology Institute, and a long-time friend of mine over there recommended we invite one of their graduates who runs a consulting firm on Wall Street—a woman named Denise Shull—to speak on what she calls the new psychology of risk, uncertainty, and decision making. It sounded like a provocative topic for the end of the year Friday series, so I went with it.”

“That’s mildly amazing actually. I just met a woman from that department last night in the cab line. I didn’t know they existed! When is it?”

“Well that’s the thing, in only a few weeks, so I was hoping you would help get the word out. There is draft flyer on the printer now. Let me know what you think. You’ve been around here long enough to know what might entice our quirky but lovable geeks to show up for a talk on something other than esoteric models.”

“Aha,” Michael laughed. “Maybe the angle of a room full of female psychology grads might get some traction.” After all, having met Renee, the pitch already worked for him.