

Investigation on Speculation from Management Perspective

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Abstract: The paper raised speculation idea from management perspective by analyzing the properties of management and speculation; as well proposed the ways to improve speculation capability and corresponding management method by describing the characters and rules of speculation. Through a thorough discussion, we concluded that stakeholders should pay more attention to speculation from management perspective, and it is necessary to establish management speculation science for further investigation and improvement.

Key words: Speculation; Management Speculation; Discipline Construction

1 Introduction

There is no certain final conclusion and learning system about speculation until now. It is really difficult to establish the speculation theory because speculation exists in all walks of life, and we cannot define it clearly, moreover, some people still have a prejudice from Chinese traditional culture. It is easy to make a simple statement of speculation from management point of view. We believe that the speculation issue exists in the management and hope to discuss it as a proposal for establishing speculation science of management.

2 Literature Review

Speculation has many meanings, such as to obtain price difference profits in market transactions. The so-called tricky for profit, speculation and tricky are often linked. In another word, it means to get more profit with less effort or by loading the dice. Frankly speaking, Speculation is to achieve goals by devious means. Speculation is a derogatory term in Chinese culture. Tell a lie, manipulations of account, jerry-built project, forged and fake commodity are all considered as speculation. There is a typical Confucian story: Zi Gong saw an old man dragged his urn to get water, Zi Gong kindly told him that he can make use of shaduf to get water easier. The old man said, I know that but I do not want to use it, because we will be infected with opportunistic idea if we use the opportunistic things. Confucius praised the old man as a sage. Here ethics and methods are against of each other. From this story we can easily learn that if the ethics and methods are against of each other, our society could not make progress^①.

“Congenial” has the meaning of fit together. “When drinking with a bosom friend, a thousand cups will still be too little; if there's no common ground, a single word is a waste of breath. “In general, consistency and fit include epistemology as well as methodology. Only the appropriate one is the correct one. To be poison or medicine is not determined by the arsenic or ginseng, but depends on whether they can meet the patients' need. Mr. Mao Zedong mentioned in his book <Epistemology> that people's thoughts, ideas, plans and programs cannot be considered correct until they are successfully realized in the process of changing the objective world^[1].

Mr. Huang Guoxiong investigated the activities of speculation in commodity exchange, he thought that commercial speculation is able to predict the price change in the future, speculation is a behavior of buying or selling now so as to get benefit through selling or buying again in the future^[2]. Corresponding to the commercial speculation, Mr. Wang Zhongliang regarded the speculation in the securities as "a high frequency behavior of buying and selling to get price difference according to price fluctuation"^[3]. Mr. Chen Xunshan said that “from the economic point of view, speculation is an activity of getting high profit by making use of price difference for the products which price is easily changed.^[4]”.

There is little study of speculation management in the literatures; the theory about speculation mainly concentrates on speculation bubble research and related management countermeasures in the capital market.

According to the published study reports and the facts of history, Shiller (2000) concluded that the American stock market was “irrational exuberance”. He thought that the U.S. stock market showed a prominent characteristic of speculative bubble at that time^[5]. Mr. You Xiangqian and Mr. Chen Wenmei

①Baidu encyclopedia: <http://baike.baidu.com/view/140991.htm>; <http://baike.baidu.com/view/372804.htm>

(2002) did an in-depth analysis of the formation and the expanding of speculative bubble in Chinese stock market^[6]. Mr. Yuan Yunfeng and Mr. Fan Feilong (2002) thought that the effectiveness of capital market led the necessity of the formation of stock market bubble, the difference of market speculation active degree caused the formation of rational and irrationality stock market bubble^[7]. Mr. Wang Lianhua and Mr. Yang Chunpeng (2005) thought that behavior finance reveals the formation mechanism of asset bubbles from the point of the irrational investors' view, and it provides a new idea for the for bubble theory research^[8]. Mr. Zhou Aiming (1999)^[9]and Mr. Pan Guoling (2000)^[10] thought :the foam in the economic activities is measurable, measurement tool is behavior difference equation under the rational anticipated assumption , while the scale of the measure is whether there is a difference between the convergence of the solution of peng's stable countermeasures conditions.

Management science requires people to make decisions and plans scientifically and rationally, so that subjective could be supposed to be in line with reality, an organization could be adaptive to the outer environment, organization could be dynamically integrated, and the principle of efficiency could be realized. That means to obtain the biggest possible achievement with the least investment and consumption.

It is obvious that management has the property of speculation. In this sense, management science is better to have a mutual development with speculative research instead of avoiding it. Specifically, we can probe into the speculative problems in management or to manage the speculative phenomenon scientifically.

3 Speculation from Management Perspective

For better understanding, we simplify the management concept with the view of decision-making process. So-called management is based on the research to judge and predict the future of things, to analyze and evaluate possible options, to make a decision and implement it. The most important and critical thing is to predict. People maybe make different forecast even they share the same information. With a practical point of hindsight, only the prediction is correct, can people make a right decision. Any errors of the predictions will lead to wrong decision-making and the whole management failure.

According to decision-making conditions, decisions can be classified into three types: ascertaining type decision, risk type decision and non-ascertaining type decision. Objectively speaking, except ascertaining type decision, there is no reliable method for correct decisions. People are always trying to change the problems to be deterministic, but in fact it is contrary to the objective properties. For example, it is impossible to change the random variables into independent variables. Managers face with the problems which are uncontrollable for decision-making. Even some of the properties of random variables is understood, and its value depends on the results of the objective movement, but decision-making must be prior to the value determination. Moreover, people's knowledge for some factors is still unclear when they make decisions and they also don't have a complete understanding for the random varies.

To define speculation from the view of management is to make a decision and make an executive program when people are facing uncertain factors. This decision-making and program-making is a kind of Game. At this time the risk attribute of decision-making and management is prominent and sharp. Selecting one of the programs means to give up others, or means to choose one of the two contrary programs. In other words, no matter what is the manager's subjective wish, he has to consider the importance, urgency, advantage and disadvantage in the Game. Both natural factors and competitors which have subjective initiative zero-sum are in the Game. The Game will be confrontational and intense in case there are competitors exist in the Game.

4 Typical Examples of Speculative Decisions

Investment decisions of buying and selling have to be made at every moment in the securities secondary market. Buying is multipoint and selling is shorts. You will get profit when stock price goes up after you buying it or stock price goes down after you sell it, otherwise you will get loss. According to the stock price random roaming theory, it is 50% probability of stock price fluctuated up or down at any time. There is no reliable method to accurately predict the volatility of stock price direction in next moment. That means at any time, both bull the market and taking short position are Game. People can only do long and short decision-making when they are not sure if the stock price going up or down in next moment. People can only do more or empty investment decisions, but can not change the objective properties of random fluctuations of stock price. Even the manipulation of cheating, such as human

behavior of makers, can only change the direction probability of price fluctuations, but still can not change the results and still have diversity of success or failure^[1].

5 Properties and Rules of Speculation

Decision-making and plan-making in the condition that multiple uncertain solutions exist is to speculate. Speculation Tao is the rules that should be complied with in the process of speculation. The important rules of speculation Tao are summaries as followings:

The property characteristics and the first rule of speculation is to rebel against the orthodoxy. “The Tao that can be told is not the usual Tao”^②. In other words, there is another principle existing besides the principles people already knew. And this should be quite right natural law. So far, people only know rare and limited truths. Human’s understanding about the world is a infinite development from a free kingdom to a realm of necessity. The implement of speculation is to choose an unknown or unproven path across the bound of the existing principles and laws. So, speculation is a very difficult subject.

The second rule of speculation is to do something that is easy to realize but hard to implement. In order to realize the speculation, you have to break many insuperable psychological or nature obstacles, for instance, leaving loss or profit out of consideration. Speculation itself is a game between the important and the less important, advantages and disadvantages, or loss and profit. Isn’t it absurd to leave loss or profit out of consideration at the same time? It has to be emphasized that the understanding of the future is in the first place in the problem of speculation. And the biggest obstacle of people’s understanding is human itself. When you are impacted by your own position, interests, needs and tastes, you will embark on self-righteous and non-real path, and it will lead you to mistakes or even to failure^③.

The third rule of speculation is to adjust the conventionally rational concept. For example, you should seek for better but not the best solution when you are involved in an uncertain situation. “Curb the risk when speculating, put energy at right time.” The characteristics of speculation tells us that the problem of speculation itself would not exist without the condition that exists multiple uncertain solution. Only when you are involved in an uncertain situation, can you seize the initiative. In the condition of multiple uncertain solutions, optimal solution cannot be planned theoretically. We will not apply the rules mechanically without paying attention to changes in circumstances. Speculation does not follow the principle of more payment for more work.^④

The fourth rule of speculation is bold which also means courage and insight. Speculation is not blind luck, hot-headed, or foolhardy. Speculators should avoid easy and choose difficulty, do something that others can not do. Without exceptional ability to discover the opportunity, how can you speculate? Moreover, speculation is not only to discover but also to achieve. A unique speculator can not please all persons. It is necessary to achieve ecstasy for the speculators so as to curvet between the trend and counter trend and to sneak between true and fake. You can not always win in speculation, and you have to accept the failure and sacrifice. Especially it needs enormous self-control ability and courage to correct our own mistakes when we are aware of them.

6 Suggestions and Conclusions

In summary, there is no clear speculation rule to follow, but it is not no-rules to follow. Multiple solutions of uncertain factors, changes process in motion follows a non-conventional way. The same speculative condition will lead to different results for different people. In other words, the consequences cannot be controlled, but it is precisely the result of speculative decision-making programs. In this sense, it looks that the result of speculation lies in objective but in fact it lies in subjective. So it is necessary to improve the capacity of speculation and use correct speculation management.

6.1 Character determines destiny

People often attribute unpredictable condition and uncontrolled results to fate. And psychology and organizational behavior believes that character is the power of growth and development in the psychological system and is the sum of the individual response methods and communication methods. So that character determines destiny. There are three important factors in Personality traits: self-esteem, self-control and risk. The so-called self-esteem is the degrees of people love themselves, which is based on the understanding of their own capability; Self-control is the individual ability that people adjust their

^②Baidu encyclopedia:Tao Te Ching,<http://baike.baidu.com/view/16516.htm>

^③Baidu encyclopedia:The Book of Five Rings <http://baike.baidu.com/view/89725.htm>

^④Anonymous Wave-Theory-SpeculativeTao , http://www.360doc.com/content/09/0329/00/109267_2953719.shtml

behavior according to outside condition. That means the ability to maintain harmony with the objective environment condition. So-called risk-taking is the willingness and degrees to take risks. The willingness includes the initiative and the attitude to risks. .

If a person can get success and how successful he could be in his career depend not only on certainty decision-making, but also depend more on the risk decision-making and uncertainty decision-making, that means it depends more on speculation. It is obvious that the result of speculation depends on personal qualities, depending on whether they have character defects and shortcomings. In fact, Confucianism is a very good speculator, they proposed golden rules for people: good attitude, shut up, harmony family, country management, and universal management. The Confucianism action skills include: Knowledgeable, questioning, deliberation, discernment, earnest^⑤. Although a person's character depends on his endoplasmic, it still can be improved. The character is from both innate character and the learning action. Organizational behavior is also known as management Psychology, in their opinion the learning is defined as: behavior change indicates that learning occurs.

6.2 Management methods for speculation

For investment characteristics, the popular management is a game theory, multi-stage dynamic decision-making, rolling plan approach, tracking control and the best control. These methods help people to improve predictive capability, improve and enhance the responsiveness and adaptability.

Firstly, as I mentioned before, people's understanding and prediction for future are in the primary account of the speculative position problems. These management methods extend the horizon, and with a long-term point of view to deal with problems. Under the guidance of long-term planning to realize each steps, and reduce the "A man without distant care must have near sorrow." The principles and seriousness of decision-making and planning firstly originates from scientific, rationality and practicality of the decision-making and planning,

Secondly, the long-short arrangement in stages not only embodies the important role of strategy, but also reflects the flexibility of dynamic fit. The movement of the dynamic constantly be verified and continuously be adjusted. For the things you "see through", you can "put down and at ease", and have the best control. For the things which are waiting for the results of the objective world, you can prepare many options and do tracking control.

In summary, the complex movements, multi-solution problem of uncertainty speculation is a common problem. It is also a very important issue which is more important than conventional decision sometimes, and it concerns the success or failure of an enterprise, an organization or individual person. It is also a problem of management innovation. It is recommended to establish an independent management subject and branch to make a further study of speculation.

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^⑤Baidu encyclopedia:The book of Rites&The Doctrine of the Mean,

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