Behavioural Finance Heuristics In Investment Decisions

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Behavioural Finance Heuristics In Investment Decisions ***2021-06-16***

HEZEKIAH COOK

Psychology of the Stock Market CFA Institute Research Foundation

Behavioral Finance helps investors understand unusual asset prices and empirical observations originating out of capital markets. At its core, this field of study aids investors in navigating complex psychological trappings in market behavior and making smarter investment decisions. Behavioral Finance and Capital Markets reveals the main foundations underpinning neoclassical capital market and asset pricing theory, as filtered through the lens of behavioral finance. Szyszka presents and classifies many of the dynamic arguments being made in the current literature on the topic through the use of a new, ground-breaking methodology termed: the General Behavioral Asset Pricing Model (GBM). GBM describes how asset prices are influenced by various behavioral heuristics and how these prices deviate from fundamental values due to irrational behavior on the part of investors. The connection between psychological factors responsible for irrational behavior and market pricing anomalies is featured extensively throughout the text. Alternative explanations for various theoretical and empirical market puzzles - such as the 2008 U.S. financial crisis - are also discussed in a convincing and interesting manner. The book also provides interesting insights into behavioral aspects of corporate finance.

A Fast and Frugal Finance John Wiley & Sons

Behavioural investing seeks to bridge the gap between psychology and investing. All too many investors are unaware of the mental pitfalls that await them. Even once we are aware of our biases, we must recognise that knowledge does not equal behaviour. The solution lies is designing and adopting an investment process that is at least partially robust to behavioural decision-making errors. Behavioural Investing: A Practitioner's Guide to Applying Behavioural Finance explores the biases we face, the way in which they show up in the investment process, and urges readers to adopt an empirically based sceptical approach to investing. This book is unique in combining insights from the field of applied psychology with a through understanding of the investment problem. The content is practitioner focused throughout and will be essential reading for any investment professional looking to improve their investing behaviour to maximise returns. Key features include: The only book to cover the applications of behavioural finance An executive summary for every chapter with key points highlighted at the chapter start Information on the key behavioural biases of professional investors, including The seven sins of fund management, Investment myth busting, and The Tao of investing Practical examples showing how using a psychologically inspired model can improve on standard, common practice valuation tools Written by an internationally renowned expert in the field of behavioural finance

Behavioral Finance and Capital Markets

PHI Learning Pvt. Ltd.
Government policies, marketing campaigns of banks, insurance companies, and other financial institutions, and consumers' protective actions all depend on assumptions about consumer financial behavior. Unfortunately, many consumers have no or little knowledge of budgeting, financial products, and financial planning. It is therefore important that organizations and market authorities know why consumers spend, borrow, insure, invest, and save for their retirement - or why they do not. Understanding Consumer Financial Behavior provides a systemic economic and behavioral approach to the way people handle their finances. It discusses the different types of financial behaviors consumers may engage in and explores the psychological explanations for their behavior and choices. This exciting new book is essential reading for scholars of marketing, finance, and management; financial professionals; and consumer policy makers.
Investor Behavior Oxford University Press
Since the mid-1970s, hundreds of academic studies have been conducted in risk perception-oriented research within the social sciences (e.g., nonfinancial areas) across various branches of learning. The academic foundation pertaining to the quot;psychological aspectsquot; of risk perception studies in behavioral finance, accounting, and economics developed from the earlier works on risky behaviors

and hazardous activities. This research on risky and hazardous situations was based on studies performed at Decision Research (an organization founded in 1976 by Paul Slovic) on risk perception documenting specific behavioral risk characteristics from psychology that can be applied within a financial and investment decision-making context. A notable theme within the risk perception literature is how an investor processes information and the various behavioral finance theories and issues that might influence a person's perception of risk within the judgment process. The different behavioral finance theories and concepts that influence an individual's perception of risk for different types of financial services and investment products are heuristics, overconfidence, prospect theory, loss aversion, representativeness, framing, anchoring, familiarity bias, perceived control, expert knowledge, affect (feelings), and worry. Judgment Under Uncertainty Behavioral Finance: The Second Generation

A definitive guide to the growing field of behavioral finance This reliable resource provides a comprehensive view of behavioral finance and its psychological foundations, as well as its applications to finance. Comprising contributed chapters written by distinguished authors from some of the most influential firms and universities in the world, Behavioral Finance provides a synthesis of the most essential elements of this discipline, including psychological concepts and behavioral biases, the behavioral aspects of asset pricing, asset allocation, and market prices, as well as investor behavior, corporate managerial behavior, and social influences. Uses a structured approach to put behavioral finance in perspective Relies on recent research findings to provide guidance through the maze of theories and concepts Discusses the impact of sub-optimal financial decisions on the efficiency of capital markets, personal wealth, and the performance of corporations Behavioral finance has quickly become part of mainstream finance. If you need to gain a better understanding of this topic, look no further than this book.

Beyond Greed and Fear Oxford University Press on Demand Behavioral finance presented in this book is the second-generation of behavioral finance. The first generation, starting in the early 1980s, largely accepted standard finance's notion of people's wants as "rational" wants—restricted to the utilitarian benefits of high returns and low risk. That first generation commonly described people as "irrational"—succumbing to cognitive and emotional errors and misled on their way to their rational wants. The second generation describes people as normal. It begins by acknowledging the full range of people's normal wants and their benefits—utilitarian, expressive, and emotional—distinguishes normal wants from errors, and offers guidance on using shortcuts and avoiding errors on the way to satisfying normal wants. People's normal wants include financial security, nurturing children and families, gaining high social status, and staying true to values. People's normal wants, even more than their cognitive and emotional shortcuts and errors, underlie answers to important questions of finance, including saving and spending, portfolio construction, asset pricing, and market efficiency.

The Role of Trend Length, Heuristic Use, and Experience in Behavioral Finance Springer

The Efficient Market Hypothesis (EMH) has been generally accepted in academia despite its well-researched flaws; by understanding how and when markets deviate from efficiency, investors have an opportunity to not only better understand their investing habits, but also possibly generate higher investment returns. Various market anomalies, such as the Value Effect (De Bondt & Thaler, 1985), the Monday Effect (French, 1980), and the January Effect (De Bondt and Thaler, 1958 & 1987), attest to the fact that markets experience periods of deviation from efficiency. Fiévet and Sornette (2016) finding that markets experience inefficiency during periods of significant volatility is confirmed by behavioral finance, which explains how behavioral heuristics influence investment decisions, specifically greed and fear (p.38). Andrew Lo based his substitute for the EMH, the Adaptive Market Hypothesis (AMH), on the supposition that markets become inefficient because of irrational investor behavior (Urquhart & McGroarty, 2016). In applying these concepts to an individual’s portfolio, it could provide great insight into their own trading patterns; for investors with higher risk tolerance, these theories could help produce larger returns for their investment portfolios.

Behavioural Investing Elsevier

This book will take your understanding of finance to the next level. The Story of Behavioral Finance is about "finance in the real world"-it's finance theory with real people and real institutions. What happens when your portfolio manager sets out not to maximize your return but rather to maximize his own compensation and minimize his own career risk? Why didn't rational investors short high-flying Internet companies back in 1999? Why was it that so many of the firms that went public in 1999 and 2000 for hundreds of millions of dollars subsequently went bankrupt? These are the types of questions that will be answered in this book. The Story of Behavioral Finance will cover a lot of ground. We will cover the two main strands of behavioral finance, investor psychology and limits to arbitrage, and we'll apply these concepts to a wide array of financial market phenomena. We will explore, for example, why it is that almost no one seems to "beat the market" despite that fact that there are often easily spotted price inefficiencies.

Behavioral Finance for the Individual Investor Cengage Learning

"This unique volume presents new original research exploring factors that lead to investors behavioral biases. It discusses how features such as professionalism, sophistication, gender, media, and culture influence investors' decision-making in general, and in particular, how they generate (or limit) behavioral and cognitive biases. The effects of these factors on capital markets are also discussed. The book is based on the discussions and presentations at the First Israel Behavioral Finance Conference, which took place in Tel Aviv in May 2015. It examines in greater detail some of the key issues discussed at the conference. This is an innovative book in behavioral finance: it is the first to present an extensive collection of papers which discuss a comprehensive array of factors that influence or define investor character and analyzes these factors' effects on financial markets. The book is useful for readers interested in understanding the factors that influence investors' profiles and thus their behavioral biases. The book will be of great interest to researchers and students seeking a reference book which contains timely research on these areas of behavioral finance."--Publisher's website

The Story of Behavioral Finance Oxford University Press

"Pompian is handing you the magic book, the one that reveals your behavioral flaws and shows you how to avoid them. The tricks to success are here. Read and do not stop until you are one of very few magicians." —Arnold S. Wood, President and Chief Executive Officer, Martingale Asset Management

Fear and greed drive markets, as well as good and bad investment decision-making. In Behavioral Finance and Wealth Management, financial expert Michael Pompian shows you, whether you're an investor or a financial advisor, how to make better investment decisions by employing behavioral finance research. Pompian takes a practical approach to the science of behavioral finance and puts it to use in the real world. He reveals 20 of the most prominent individual investor biases and helps you properly modify your asset allocation decisions based on the latest research on behavioral anomalies of individual investors.

The Psychology of Risk Harriman House Limited

Classical and behavioral finance are often seen as being at odds, but the idea of “popularity” has been introduced as a way of reconciling the two approaches. Investors like or dislike various characteristics of securities for rational reasons (as in classical finance) or irrational reasons (as in behavioral finance), which makes the assets popular or unpopular. In the capital markets, popular (unpopular) securities trade at prices that are higher (lower) than they would be otherwise; hence, the shares may provide lower (higher) expected returns.This book builds on this idea and expands it in two major ways. First, it introduces a rigorous asset pricing model, the popularity asset pricing model (PAPM), which adds investor preferences for security characteristics other than the risk and expected return that are part of the capital asset pricing model. A major conclusion of the PAPM is that the expected return of any security is a linear function of not only its systematic risk (beta) but also of all security characteristics that investors care about. The other major contribution of the book is new empirical work that, while confirming the well-known premiums (such as size, value, and liquidity) in a popularity context, supports the popularity hypothesis on the basis of portfolios of stocks based on such characteristics as brand value, sustainable competitive advantage, and reputation. Popularity unifies the factors that affect price in classical finance with those that drive price in behavioral finance, thus creating a unifying theory or bridge between classical and behavioral finance.

In Building Optimal Portfolios, Do Not Ignore Investors' *Emotions* Springer Financial Behavior: Players, Services, Products, and Markets provides a synthesis of the theoretical and empirical literature on the financial behavior of major stakeholders, financial services, investment products, and financial markets. The book offers a different way of looking at financial and emotional well-being and processing beliefs, emotions, and behaviors related to money. The book provides important insights about cognitive and emotional biases that influence various financial decision-makers, services, products, and markets. With diverse concepts and topics, the book brings together noted scholars and practitioners so readers can gain an in-depth understanding about this topic from experts from around the world. In today's financial setting, the discipline of behavioral finance is an ever-changing area that continues to evolve at a rapid pace. This book takes readers through the core topics and issues as well as the latest trends, cutting-edge research developments, and real-world situations. Additionally, discussion of research on various cognitive and emotional issues is covered throughout the book. Thus, this volume covers a breadth of content from theoretical to practical, while attempting to offer a useful balance of detailed and user-friendly coverage. Those interested in a broad survey will benefit as will those searching for more in-depth presentations of specific areas within this field of study. As the seventh book in the Financial Markets and Investment Series, Financial Behavior: Players, Services, Products, and Markets offers a fresh looks at the fascinating area of financial behavior.

Behavioral Finance John Wiley & Sons
Now you can offer your students a structured, applied approach to behavioral finance with the first academic text of its kind--Ackert/Deaves' BEHAVIORAL FINANCE: PSYCHOLOGY, DECISION MAKING, AND MARKETS. This comprehensive text--ideal for your behavioral finance elective-- links finance theory and practice to human behavior. The book begins by building upon the established, conventional principles of finance that students have already learned in their principles

course. The authors then move into psychological principles of behavioral finance, including heuristics and biases, overconfidence, emotion and social forces. Students learn how human behavior influences the decisions of individual investors and professional finance practitioners, managers, and markets. Your students gain a strong understanding of how social forces impact people's choices. The book clearly explains what behavioral finance indicates about observed market outcomes as well as how psychological biases potentially impact the behavior of managers. Students learn the implications of behavioral finance on retirement, pensions, education, debiasing, and client management. This book is unique as it spends a significant amount of time examining how behavioral finance can be used effectively by practitioners today. The book's solid academic approach provides opportunities for students to utilize theory and complete applications in every chapter. A wide variety of end-of-chapter exercises, discussion questions, simulations and experiments reinforce the book's applied approach, while useful instructor supplements ensure you have the resources to clearly present theories of behavioral finance and their applications. Important Notice: Media content referenced within the product description or the product text may not be available in the ebook version.

Behavioural Finance McGraw Hill Professional

Financial markets are complex. Regulators strive to predict ways in which they can malfunction and create rules to prevent this from happening, yet behavioural impacts are often overlooked. This book explores how behavioural finance can go hand-in-hand with traditional methods to help banks and regulators create better policies. It also demonstrates how the behavioural finance revolution has opened the way to a more integrated approach to the analysis of economic phenomena.

Behavioral Finance Academic Press

Arbitrage, State Prices and Portfolio Theory / Philip h. Dybvig and Stephen a. Ross / - Intertemporal Asset Pricing Theory / Darrell Duffle / - Tests of Multifactor Pricing Models, Volatility Bounds and Portfolio Performance / Wayne E. Ferson / - Consumption-Based Asset Pricing / John y Campbell / - The Equity Premium in Retrospect / Rainish Mehra and Edward c. Prescott / - Anomalies and Market Efficiency / William Schwert / - Are Financial Assets Priced Locally or Globally? / G. Andrew Karolyi and Rene M. Stuli / - Microstructure and Asset Pricing / David Easley and Maureen O'hara / - A Survey of Behavioral Finance / Nicholas Barberis and Richard Thaler / - Derivatives / Robert E. Whaley / - Fixed-Income Pricing / Qiang Dai and Kenneth J. Singleton.

Cambridge University Press

Why do most financial decision-making models fail to factor in basic human nature? This guide to what really influences the decision- making process applies psychological research to stock selection, financial services and corporate financial strategy, using real-world examples.

Behavioral Finance John Wiley & Sons

Behavioral finance expert and bestselling author Robert Koppel shows traders and investors how to invest your money rationally, even in an irrational world "Investing," according to Robert Koppel, "Involves far more than specific analytical and strategic skills. It requires the development of habits, thought patterns and creative attitudes that influence the way to think and act in the market." In Investing and the Irrational Mind, Koppel, author of the classic bestseller,The Inner Game of Trading, uses the latest advancements in behavioral finance and neuroeconomics to help you gain these habits, as well as the deep understanding of market risk factors necessary to successful portfolio building. Armed with 30 years' experience as an analyst, and fund manager, and interviews with top traders, behavioral economists, risk managers and neuroscientists, Koppel lets you build a personal arsenal of risk management skills ("quantitative architecture") necessary for investors at any level to develop a focused, disciplined, confident, and profitable approach to investing. Filled with surprising insights into human behavior, and rock-solid financial advice, this is the guide you need to invest in today's markets.

Behavioral Finance and Investor Types Wiley

The field of behavioural finance points

out various investor biases and heuristics which inhibit optimal investment choices and are sometimes deemed irrational. Although emotions are often viewed as anathema to sound financial decisions, there is a big emotional component that has to be taken into consideration when holistically defining financial goals. Investors have differing goals for investing. Portfolio theory should therefore not overlook these goals and its horizon should be expanded to offer investors with the best possible achievable solution by incorporating financially efficient anxiety reduction. A rational solution should therefore take investors' behavioural shortcoming into account because investors do not simply care about risk-adjusted returns but the best returns that can be achieved for the level of stress they are going to have to endure over the volatile investment journey.

Behavioral Finance John Wiley & Sons
The theories and concepts of behavioural finance are not widely studied. In many countries, the acceptance level of behavioural theories is quite low. However, the increasing instances of various anomalies of financial markets have forced many researchers to look closer to this modern field of finance. Behavioural Finance seeks to bring together all the concepts and theories developed by renowned international and national researchers and practitioners in financial markets. An in-depth study has been made to explain the current economic downturn and the

role of behavioural finance in it. KEY FEATURES • Interviews: Latest industry views by various asset-class experts • Facts: Important factual information in boxes titled 'Do You Know?' • Abbreviations: Important and relevant abbreviated terms • Model Test Papers: For practice • Summary: Given as 'Key Learning Points' for revision

Behavioral Finance: A Novel Approach

John Wiley & Sons

Master's Thesis from the year 2018 in the subject Business economics - Investment and Finance, grade: 1,3, University of Bremen, language: English, abstract: The aim of this paper is to propose a model for cultural finance and to develop theory-based hypotheses on stock market investing. In contrast to the inductive financial research, a deductive approach is offered here to connect widely-accepted behavioral hypotheses on the stock market. Understanding behavioral influences on an investor’s decision-making surprisingly has not been driven much by the acknowledgment of the mediating role of culture. While behavioral finance criticizes excessive simplifications regarding an investor’s behavior according to the homo oeconomicus, it makes the unrealistic assumption that actors exhibit universal biases and equally apply heuristics when facing different choices of action. This paper addresses cultural finance as an important background variable and suggests a conjoint effect with behavioral finance. This means that the culture can enhance, decrease or reverse biases and heuristics which are still mostly examined in the United States and only replicated in western countries. The paper is encouraged to implement cultural finance as a future research field.