Behavioural Finance Heuristics In Investment Decisions

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Behavioral Finance McGraw-Hill Education

This comprehensive, lucidly written text is an ideal introduction to behavioural finance. The book caters to the needs of both undergraduate and postgraduate management courses. It covers almost all important topics of behavioural finance prescribed in the syllabi of various universities across India, including Neurofinance and Forensic Accounting, which have rare occurrence in other books but are important from future perspective. There is a dearth of literature in behavioural finance, and if available, then the books are of large volumes, written by foreign authors citing examples and case studies from the countries other than India. Hence, the present book aims at providing information in global scenario, particularly Indian cases. A number of case studies and box items make this text interesting and informative. Review questions given at the end of each chapter help students in assessing their knowledge after having learned the concepts. Overall, the book will help readers in gaining adequate knowledge of the subject.

Behavioural Investing Oxford University Press

Portfolio management is an ongoing process of constructing portfolios that balances an investor's objectives with the portfolio manager's expectations about the future. This dynamic process provides the payoff for investors. Portfolio management evaluates individual assets or investments by their contribution to the risk and return of an investor's portfolio rather than in isolation. This is called the portfolio perspective. Thus, by constructing a diversified portfolio, a portfolio manager can reduce risk for a given level of expected return, compared to investing in an individual asset or security. According to modern portfolio theory (MPT), investors who do not follow a portfolio perspective bear risk that is not rewarded with greater expected return. Portfolio diversification works best when financial markets are operating normally compared to periods of market turmoil such as the 2007-2008 financial crisis. During periods of turmoil, correlations tend to increase thus reducing the benefits of diversification. Portfolio management today emerges as a dynamic process, which continues to evolve at a rapid pace. The purpose of Portfolio Theory and Management is to take readers from the foundations of portfolio management with the contributions of financial pioneers up to the latest trends emerging within the context of special topics. The book includes discussions of portfolio theory and management both before and after the 2007-2008 financial crisis. This volume provides a critical reflection of what worked and what did not work viewed from the perspective of the recent financial crisis. Further, the book is not restricted to the U.S. market but takes a more global focus by highlighting cross-country differences and practices. This 30-chapter book consists of seven sections. These chapters are: (1) portfolio theory and asset pricing, (2) the investment policy statement and fiduciary duties, (3) asset allocation and portfolio construction, (4) risk management, (V) portfolio execution, monitoring, and rebalancing, (6) evaluating and reporting portfolio performance, and (7) special topics.

A Fast and Frugal Finance Harriman House Limited

A Fast and Frugal Finance: Bridging Contemporary Behavioral Finance and Ecological Rationality adds psychological reality to classical financial reasoning. It shows how financial professionals can reach better and quicker decisions using the 'fast and frugal' framework for decision-making, adding dramatically to time and outcome efficiency, while also retaining accuracy. The book provides the reader with an adaptive toolbox of heuristic tools and classification systems to aid real-world decisions. Throughout, financial applications are presented alongside real-world examples to help readers solve established problems in finance, including stock buying and selling decisions, even in situations of considerable uncertainty and risk. The book concludes by describing potential solutions to financial problems, including discussions on high frequency trading and machine learning algorithms. Demonstrates how well-constructed 'fast and frugal' models can outperform standard models in time and outcome efficiency Focuses on how financial decisions are made in reality rather than how they should be made Discusses how cognition and the decision-making context interact in producing 'fast and frugal' choices Explores the development of decision-making trees in finance to aid in decision-making

Behavioral Finance CFA Institute Research

Foundation

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.

Behavioral Corporate Finance

PHI Learning Pvt. Ltd.

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.

Behavioral Finance World Scientific

Behavioral Corporate Finance provides instructors with a comprehensive pedagogical approach for teaching students how behavioral concepts apply to corporate finance. The primary goal is to identify the key psychological obstacles to value maximizing behavior, along with steps that managers can take to mitigate the effects of these obstacles.

The Psychology of Risk GRIN Verlag

Smart and successful way of investing calls for a thorough understanding of behavioral finance not just market sentiments, crowd behavior or company performance. This book studies investing and behavioral trends in Indian capital markets, and shows the follies of collective behavioral biases and their impact on investor decisions and returns.

Portfolio Theory and Management 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

Why Financial Markets Rise Slowly but Fall Sharply Academic 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.

Behavioral Finance and Stock Market Investing. The Importance of National Culture

Springer

Become a more strategic and successful investor by identifying the biases impacting your decision making. In Behavioral Finance and Your Portfolio, acclaimed investment advisor and author Michael M. Pompian delivers an insightful and thorough guide to countering the negative effect of cognitive and behavioral biases on your financial decisions. You’ll learn about the “Big Five” behavioral biases and how they’re reducing your returns and leading to unwanted and unnecessary costs in your portfolio. Designed for investors who are serious about maximizing their gains, in this book you'll discover how to: ? Take control of your decision-making—even when challenging markets push greed and fear to intolerable levels ? Reflect on how to make investment decisions using data-backed and substantiated information instead of emotion and bias ? Counter deep-seated biases like loss aversion, hindsight and overconfidence with self-awareness and hard facts ? Identify your personal investment psychology profile, which you can use to inform your future financial decision making Behavioral Finance and Your Portfolio was created for individual investors, but will also earn a place in the libraries of financial advisors, planners and portfolio managers who are determined to counteract the less principled and data-driven aspects of their decision making.

The Behavioural Finance Revolution World Scientific Behavioral finance is the study of how psychology affects financial decision making and financial markets. It is increasingly becoming the common way of understanding investor behavior and stock market activity. Incorporating the latest research and theory, Shefrin offers both a strong theory and efficient empirical tools that address derivatives, fixed income securities, mean-variance efficient portfolios, and the market portfolio. The book provides a series of examples to illustrate the theory. The second edition continues the tradition of the first edition by being the one and only book to focus completely on how behavioral finance principles affect asset pricing, now with its theory deepened and enriched by a plethora of research since the first edition

Handbook of the Economics of Finance Routledge

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.

Trading on Sentiment Academic Press

People tend to be penny wise and pound foolish and cry over spilt milk, even though we are taught to do neither. Focusing on the present at the expense of the future and basing decisions on lost value are two mistakes common to decision-making that are particularly costly in the world of finance. Behavioral Finance: What Everyone Needs to KnowR provides an overview of common shortcuts and mistakes people make in managing their finances. It covers the common cognitive biases or errors that occur when people are collecting, processing, and interpreting information. These include emotional biases and the influence of social factors, from culture to the behavior of one's peers. These effects vary during one's life, reflecting differences in due to age, experience, and gender. Among the questions to be addressed are: How did the financial crisis of 2007-2008 spur understanding human behavior? What are market anomalies and how do they relate to behavioral biases? What role does overconfidence play in financial decision- making? And how does getting older affect risk tolerance?

Behavioral Finance: A Novel Approach John Wiley & Sons 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.

Behavioral Finance and Your Portfolio Oxford University Press

Behavioral Finance: A Novel Approach presents original papers exploring fresh ideas in behavioral finance. Its chapters span a wide range of topics in a distinct mix of traditional issues along with less conventional matters. This blend creates an optimal balance between chapters aiming at widening the scope of research in behavioral finance and those striving to refine the extant knowledge.Thus, along with traditional topics such as biases in pension decisions, analysts recommendation, gender differences in decisions and IPO's underpricing, the book also contains chapters on CEO and board members behavior, biased responses to regulation and regulatory reform, investors' attitudes towards corporate governance, cognitive biases in judicial decisions, the relations between behavioral finance and religion, new methods to calibrate the accuracy of forecasts, and the relations between behavioral finance and optimal contracting.Presenting original findings on a vast assortment of subjects, all in one venue, makes the book ideal as a reference book for researchers and practitioners interested in keeping up with the important developments in behavioral finance. The book could also serve as a handy guide for adapting insights from popular behavioral finance to some important underrepresented issues.

The Little Book of Behavioral Investing GRIN Verlag

A supplement for undergraduate and graduate Investments courses. See the decision-making process behind investments. The Psychology of Investing is the first text of its kind to delve into the fascinating subject of how psychology affects investing. Its unique coverage describes how investors actually behave, the reasons and causes of that behavior, why the behavior hurts their wealth, and what they can do about it. Features: What really moves the market: Understanding the psychological aspects. Traditional finance texts focus on developing the tools that investors use for calculating risk and return. The Psychology of Investing is one of the first texts to delve into how psychology affects investing rather than solely focusing on traditional financial theory. This text’s material, however, does not replace traditional investment textbooks but complements them, helping students become better informed investors who understand what motivates the market. Keep learning consistent: Most of the chapters are organized in a similar succession. This approach adheres to following order: -A psychological bias is described and illustrated with everyday behavior -The effect of the bias on investment decisions is explained -Academic studies are used to show why investors need to remedy the problem Growing with the subject matter: Current and fresh information. Because data on investor psychology is rapidly increasing, the fifth edition contains many new additions to keep students up-to-date. The new Chapter 12: Psychology in the Mortgage Crisis describes the psychology involved in the mortgage industry and ensuing financial crisis. New sections and sub-sections include “Buying Back Stock Previously Sold”, “Who Is Overconfident,” "Nature or Nurture?”, "Preferred Risk Habitat," "Market Impacts," "Language," and “Reference Point Adaptation.”

Behavioral Finance: The

Second Generation John Wiley & Sons

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.

A Behavioral Approach to Asset Pricing Springer

Seminar paper from the year 2015 in the subject Economics - Finance, grade: 1,3, University of Applied Sciences Essen, language: English, abstract: The process of making decisions on the financial market is influenced by various factors and involves a relatively complex behaviour. In general two factors drive the process, one the financial model, that represents the correlation of risk and return and second the internal factors determined by skill level, investment portfolio and education. This work at hand distinguishes between traditional and modern theory of financial markets. The Efficient Market Hypothesis (EMH) explains that investors act rationally and make economic decisions on a rational basis. These process of decision making is explained in the Expected Utility Theory and assumes that investors are doing everything to optimize their performances, which correlates with the term `homo oeconomicus`. The behavioural financial theory, taken as the modern theory, basically handles individual circumstances that result in decision makings on the market. This work at hand will work out the changes that proceeded over the years and try to explain which way is more sufficient for analysing and understanding occasions on the financial market. The aim is to impart, how behavioural finance tries to explain the financial market with help of models. Furthermore possible shortcoming or critics of these models shall be shown.

Structural Equation Modeling Jim Colajuta

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.

Behavioral Finance and Capital Markets Vikas Publishing House

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.