accurate earnings forecasting
versus informativeness 260–61
and institutional incentives 219
and motivational and cognitive factors 217,
225, 226, 227, 228, 229, 230
and weak and strong individual forecasts:
study 287, 288
Ackert, L.F. 221, 287–8, 289, 290, 291, 292,
293, 294–5, 296, 297, 298, 299
actions 170, 171, 173, 190
see also active information; agent’s actions;
self-action
active information 58–9, 60, 61, 62
active investment management
and generalized conditional risk attribution
(GCRA) 55–61
and investment decisions 46, 47, 48
and returns 241–2, 243, 247–8
and risk budgeting 61, 62, 63
see also overconfidence and active
management: study
active traders, and higher transaction costs
effects on trader behavior: study 156–7,
160–62
adjustment 9
see also information-adjusted noise model:
Australian evidence: a study; reversals
Affleck-Graves, J. 215, 219, 231
after-hours trading 81, 83, 84–5, 86, 87, 88–9,
90, 91, 92–3, 94–8, 99–100, 101
age
and holding on to losers: Finnish evidence:
a study 349, 352, 353, 354, 355, 357, 358
and overconfidence and active management:
study 242, 245, 247, 256, 257, 258, 260
see also younger people
agency relationship 104
agent’s actions 66, 67
aggregate equity fund flow 200, 202, 203,
204–12
Agnew, J. 25, 27–36, 37, 38, 41, 43
Ahluwalia, P. 122, 128, 131, 133, 137, 149
algorithmic trading 264, 283–4
Alpert, M. 243, 255
ambiguity 392–3
see also ambiguity aversion and illusion
of control: Brazilian evidence: experimental study
ambiguity aversion and illusion of control:
Brazilian evidence: experimental study
experimental results 396–402
final considerations 402–3
introduction 390–91
literature review 391–6
American Association of Individual Investors
bullish sentiment 200–202, 203, 206–9,
210, 211–12
American Stock Exchange (AMEX) 87
AMG Data Corporation 202
analysis, investment 406, 408, 409, 412
analysts 264, 266, 267, 268–9, 273, 279, 280–83
‘anchoring’ 9, 306, 309
anniversary celebration, example of homo
communitatis behavioral finance model
173–6, 177
annuity choices 37, 38, 40, 41, 42
annuity default 38, 40, 41, 42
annuity framing bias 38, 40, 41
annuity markets 37
anthropology 168, 180, 194
anticipated regret 67, 76
arbitrage-free prices 268–9
arbitrage pricing theory (APT) 368
Argentine financial crisis see psychic distance
in the eight-year crisis: study
Ashton, R. H. 215, 216, 219, 232, 234
Asian financial crisis 115, 122, 125, 128, 405,
408, 412
see also psychic distance in the eight-year
crisis: study
ASIP 248, 251–2, 253
asset allocation, optimal see optimal asset
allocation
asset allocation puzzle 303, 316
asymmetric information see information
asymmetries
asymmetrical returns 52–7
asymmetry, and partial moments 48
asymmetry in investment utility 47
Athanassakos, G. 221, 299
Atkins, A. 86, 87
attention anomalies, and financial crisis
contagion 130
Australia see information-adjusted noise
model: Australian evidence: a study
Australian Stock Exchange (ASX) 379–80
availability bias 307
availability heuristic and observed bias in growth forecasts: study analysis 271–83

growth forecasts and past growth 278–9
predicting growth 274–7, 279–83
primary results 273–7
data 269–71
discussion and conclusions 283–4
introduction 264–5
theory and hypotheses 265–9
Avery, C. 103

banking crises 126, 340–41
Barber, B.M. 7, 156, 199, 244, 307, 309, 352, 358
Barberis, N.C. 82, 166, 186–7, 188, 191, 193, 199, 319, 325, 362
Barclay, M. 85
Baron, J. 67
and optimistic earnings forecasts 215, 219
and stock price expectations 328
Basov, S. 325
Bayes’ rule 82, 171, 185, 186, 187, 190, 223, 224, 266, 268, 273, 287–8, 290–94, 327, 328
Baytas, A. 83, 85
bearish sentiment and behavioral traders and closed-end country funds: study data 336–40
discussion 342
experimental evidence on cognitive bias 329–32
experimentally based behavioral model 332–6
introduction 325–6
related behavioral literature 326–8
results 340–41
behaviorally efficient markets 379, 380, 381, 382–3, 387, 388
beliefs 327, 328, 390, 393–4
Benartzi, S. 43, 308–9, 317, 390
Benassi, V. 395
Bennardo, G. 166, 180
better than average effect described 241, 243, 244, 259–60
and overconfidence and active management: study 245, 246–7, 248, 251–6, 257, 258
self-evaluation 394–5
Bettman, J. 27
bias in perception of probability weights 305–6, 314
Biglova, A. 48
birth control 168, 174
Black, F. 199, 327, 362, 364
Blake, D. 259, 260
blame 66, 67, 69, 71, 76
see also credit (merit); responsibility
Blasco, N. 104–5, 107, 108, 117, 118
book-to-market ratio 352–3, 354, 355, 357, 358
behavioral error correction 379, 380, 381, 382
behavioral errors 379, 380, 381–2, 383–6, 387, 388
behavioral finance, defined 304
behavioral finance and investment advice: study
advising clients optimally over time 317–18
behavioral finance approaches to investment decisions 304–10
conclusions 318
introduction 301–2
prospect theory used to solve individual asset allocation problems 311–17
traditional finance approaches to investment decisions 303–4
behavioral finance in Malaysia background of Malaysian stock market 405–6, 407
future challenges and conclusions 412
introduction 405
review 406, 408–12
behavioral traders and closed-end country funds: study
related behavioral literature 326–8
results 340–41
behaviorally efficient markets 379, 380, 381, 382–3, 387, 388
beliefs 327, 328, 390, 393–4
Benartzi, S. 43, 308–9, 317, 390
Benassi, V. 395
Bennardo, G. 166, 180
better than average effect described 241, 243, 244, 259–60
and overconfidence and active management: study 245, 246–7, 248, 251–6, 257, 258
self-evaluation 394–5
Bettman, J. 27
bias in perception of probability weights 305–6, 314
Biglova, A. 48
birth control 168, 174
Black, F. 199, 327, 362, 364
Blake, D. 259, 260
blame 66, 67, 69, 71, 76
see also credit (merit); responsibility
Blasco, N. 104–5, 107, 108, 117, 118
book-to-market ratio 352–3, 354, 355, 357, 358
bounded rationality 129–30, 264, 265–6, 325, 326, 327, 328, 390, 391

see also availability heuristic and observed bias in growth forecasts: study

Bovespa index returns 363, 367–8, 369, 371, 372, 373–6, 378

Bradshaw, M.T. 215, 216, 265–6, 269, 284

Brazil 83

see also ambiguity aversion and illusion of control: Brazilian evidence: experimental study; business and consumer sentiment impact on returns: Brazilian evidence: a study; psychic distance in the eight-year crisis: study

Brazilian Consumer Confidence Index 362, 366

Bremer, M. 83, 86, 349

broad-based exchange-traded funds (ETFs) 86, 87, 88, 89, 95, 96, 97, 98–101

broker’s advice 68, 69, 70, 71, 72, 73, 74, 75–6, 77, 78, 79

broker’s responsibility 69, 70, 71, 72, 73, 76, 77–8

Brown, G.W. 200, 362, 365, 368, 372

Brown, J. 37, 243, 394

bullish sentiment

and behavioral traders and closed-end country funds: study 334

and business and consumer sentiment impact on returns: Brazilian evidence: a study 367

and irrational versus rational sentiment 365–6

and mutual fund flow and investor sentiment relationship: study 200, 201–2, 203, 206–11, 212

and noise traders’ long-run survival 364

stock exchange in Malaysia 406, 408–9, 410, 411–12

Bureau of Economic Analysis (BEA) 270, 271

Bursa Malaysia see Kuala Lumpur Stock Exchange (KLSE)/Bursa Malaysia

Busemeyer, J. 329–30

business and consumer sentiment impact on returns: Brazilian evidence: a study

conclusions 375–6

data and descriptive statistics 366–8

econometric methodology 368–70, 378

estimation results 370–75

introduction 362–3

model 365–6

related literature 364–5

business conditions 367, 368, 369, 371, 372, 373

business cycles see availability heuristic and observed bias in growth forecasts: study

business sentiment see business and consumer sentiment impact on returns: Brazilian evidence: a study

buy-side analysts (BSAs), optimistic earnings forecasts 215, 216, 219

buying decisions 68–9, 72, 76

buying losers 410, 411, 412

Cakici, N. 83, 85

Camerer, C. 10, 20, 65, 66, 244, 259–60, 328, 348

Campbell, J. 362, 364

Canner, N.N. 303

capital account restrictions 139, 141, 143, 144, 145

capital asset pricing models (CAPMs) 383–4

capital control, and financial crisis contagion 124–5, 129

Caramazza, F. 122, 125, 126, 133, 146, 149

cash 8, 23, 45, 46, 61, 199, 283, 303, 386

Cassidy, D.L. 206, 208, 412

Center for Research in Security Prices (CRSP) 205–6

certainty equivalent 11–12, 13, 16, 17

Cesarini, D. 261

Chan, L. 164, 265, 266, 268–9, 272, 281, 285, 381

Chan, W.S. 83

Chang, E.C. 104, 106, 111

Charness, C. 396, 402–3

Chattoe, E. 168, 171, 174

chemical industry see chemical industry experience; motivational and cognitive factors in optimistic earnings forecasts: experimental study

chemical industry experience 226, 227

CHF–US$ exchange rate 249, 250

China 106, 109, 111, 113, 115, 116, 121, 143

Chinese investors 406, 408

Choi, J.J. 7, 26

choice principles 170, 171, 173, 176, 183, 193

choices see choice principles; complexity of choices; investment choices; quantity of choices; similarity of choices

Christiansen, H. 126, 128–9

Christie, W.G. 104, 106–7, 109, 111

Church, B.K. 287–8, 289, 290, 291, 292, 293, 294–5, 296, 297, 298, 299

Cianci, A.M. 215, 216, 219, 232, 233, 234

Cliff, M.T. 200, 362, 365, 368, 372

closed-end country funds see behavioral traders and closed-end country funds: study

CNN news 326, 328, 331, 338–9, 340–41, 342
cognitive biases 215, 216, 231, 302, 327–32, 364, 390, 391
see also motivational and cognitive factors in optimistic earnings forecasts: experimental study
cognitive capacity 25
cognitive psychology 166, 185, 304
Colander, D. 117
commission investment decisions 66, 67, 68, 69, 70–71, 78, 301
see also higher transaction costs effects on trader behavior: study
common membership, and psychic distance in the eight-year crisis: study 138, 146
communities, and *homo communitatis* behavioral finance model 176–7
community members 168, 176, 179–80, 181–2, 183, 184
community’s world, and *homo communitatis* behavioral finance model 176–7, 183, 193
counterfactual alternatives 66, 67, 69, 70, 71, 72, 73, 74–5, 78–9
country risk premia 367, 368, 369, 371, 372, 373
Cox, D.R. 85–6, 87
credit (merit) 67, 69, 71, 76
crisis index (CIND) 131–2, 133, 139–47
CSSD of returns, and intentional herding measurement 104, 106, 107, 108, 109–17, 118
cultural distance 130, 131–2, 137, 138, 146
currency crises 123–4
see also financial crises
current account balance as a percentage of GDP 133, 134, 139, 141, 142, 143, 145
current account restriction, and psychic distance in the eight-year crisis: study 139, 141, 143–6
Cutler, D.M. 82
Da Costa, N.C.A. 83, 86, 87
Daniel, K. 82, 85, 219, 221, 259, 325, 362
Davidson, S. 380, 383, 384, 385
De Giorgi, E. 311, 315, 316–17, 319
debiasing, motivational and cognitive factors in optimistic earnings forecasts: experimental study 231
debt 266
debt-to-equity ratio 271, 272, 280, 282
December, and disposition effect 65, 66, 346, 348
Dechow, P.M. 216, 217, 265, 269, 284
decision making 45, 231–2, 301, 303, 390, 391–2
see also investment decisions
default option 25
see also annuity default; investment default
DeLong, J.B. 84, 199, 244, 258, 327, 362, 364, 382, 387
denial, and disposition effect 66
depreciation 127, 133
devaluation 124, 125, 128
Devenow, A. 103
difference in development level, and psychic distance in the eight-year crisis: study 137, 138, 146
difficulty of investment decisions 68–9, 72, 76, 260
direct bilateral trade linkage 134, 136, 139, 141, 142, 143, 145, 146
direct market access (DMA) 156–8
Direction of Trade Statistics (IMF) 135, 136
disclosure regulations 232
discriminating contagion 128, 137
disposition effect 10, 19–20, 65–6, 158–9, 164, 317, 346, 347–9
see also disposition effect and individual investor decisions: studies; holding on to losers: Finnish evidence: a study; prospect theory; regret
disposition effect and individual investor decisions: studies conclusions and future research 76–9
disposition effect described 65–6
introduction 65
limitations 79
regret described 66–7
studies
study 1: preliminary survey 67–9
study 2: experiment 1 69–73
study 3: experiment 2 73–6, 77–8
dispositional optimism 233
diversification 303, 346
dividend yield 367, 368, 369, 371, 372, 373
dow Jones 87, 105–6, 121, 408–9
downside risk framework, investment decisions 47–8
Drazen, A. 125, 127, 128
Dugar, A. 215, 217, 219
Dyl, E. 86, 87, 346
earnings forecasting see accurate earnings forecasting; availability heuristic and observed bias in growth forecasts: study; forecasting ability; forecasting errors; motivational and cognitive factors in optimistic earnings forecasts: experimental study; weak and strong individual forecasts: study
earnings per share (EPS) growth 269, 271, 272, 273–9
earnings stability 270, 272, 279, 280
earnings-to-price ratio 270, 272, 279, 280, 282
Eckel, C. 394
economic development 130, 131, 137, 138, 146, 147
economic downturns 347, 350
see also banking crises; currency crises; financial crises
economic facts, and homo communitatis behavioral finance model 174, 180
economic growth 367, 368, 369, 371, 372, 373
see also GDP growth
economic policies, and currency crises 124
economic systems, and homo communitatis behavioral finance model 178, 179–80
economics of information 26
Edelen, R.M. 199, 200
Edgell, S. 329–30
Edwards, S. 129, 143
efficient market hypothesis (EMH) 379, 380, 381
eight-year crisis (1994–2002) 122, 147
see also psychic distance in the eight-year crisis: study
elements, and homo communitatis behavioral finance model 177, 178, 179–80, 182, 184
Elgers, P.T. 221, 231
eligibilities, and homo communitatis behavioral finance model 171, 177, 182, 183, 184
Ellsberg, D. 392, 394
emerging markets 122, 124–5, 126, 128, 129, 137, 147
see also Brazil
Emerging Markets Bond Index (EMBI) 367, 368, 369, 371, 372, 373
emotional biases 66, 103, 129–30, 302, 390, 391
see also regret
endowment framing, and market prices 8
Eppler, M. 25, 26
equity offerings and repurchasing 265, 266
equity risk premium 202, 203, 206, 207, 208, 209, 210, 211, 212
esthetic motivation, homo communitatis behavioral finance model 172, 173, 183–4, 191–2, 193
ethical motivation, homo communitatis behavioral finance model 172, 173, 183–4, 191–2, 193
ethics 168
ethnicity 406, 408
exchange rate depreciation 123
exchange rates 127–9, 367, 368, 369, 371, 372, 373, 408, 409
see also CHF–US$ exchange rate; exchange rate depreciation; fixed exchange rate system; floating exchange rate system; international exchange-traded funds (ETFs); real effective exchange rate appreciation
exchange-traded funds 81, 83, 85–6, 87
see also overreaction of exchange-traded funds: study
expectations 327, 334, 335–6, 337–42
expected equity fund flow 204–5, 206
expected utility theory 8, 20, 48, 129, 166, 301, 303, 305, 390
see also subjective expected utility (SEU)
experimental currency units (ECUs) 11, 12, 14, 15
explicit transaction costs 155
see also higher transaction costs effects on trader behavior: study
exports 124, 130–131, 134–6
facts, and homo communitatis behavioral finance model 184, 185, 194
fairness 166
fakaafe 166, 169, 178, 180–82, 196–8
false negative investment decisions see missed gains
false positive investment decisions see losses
Fama, E. F. 379
‘familiar stocks’ 105
familiarity, and comparative ignorance hypothesis 393
Federal Reserve Bank (FRB) 270, 271
feedback, and availability heuristic and observed bias in growth forecasts: study 267
feedback traders 82, 84, 85, 199
Fellner, G. 21, 395
female investors 406
Ferrera, S. 104–5, 107, 108, 117
Ferris, S. P. 65–6, 347
financial contagion 122
see also financial crisis contagion
financial costs 26, 216
financial crises 104, 105, 107, 115, 117, 122, 123–4, 129
see also Asian financial crisis; banking crises; financial crisis contagion; global financial crisis (2008–9); Latin American financial crisis; psychic distance in the eight-year crisis: study; Russian financial crisis
financial crisis contagion 124–31
see also psychic distance in the eight-year crisis: study
financial education 41–2
financial experience
forecasting bias 287
and motivational and cognitive factors 226, 227, 232
and overconfidence 242, 247, 256, 257, 258, 260, 332
financial fundamentals 124, 127
financial inexperience see low financial knowledge level
financial knowledge 26–7, 28, 29–36, 38, 39, 41–2
see also low financial knowledge level
financial liberalization, and financial crisis contagion 129
financial linkages 125–6, 140, 146
financially calm periods, intentional herding in stock markets: study 104, 105, 107, 117
Finland 347, 349
see also holding on to losers: Finnish evidence: a study
Finnish Central Securities Depository (FCSD) 349
firm characteristics 270–71, 272, 279–83, 410–11
firm size 272, 280, 410–11
see also large firms; small firms
first-generation models (FGMs) of currency crises 124
Fishburn, P. C. 48
Fisher, K. L. 200–201, 212, 362, 365
fixed exchange rate system 124, 127, 128, 139, 141, 142, 143, 144, 145, 148
floating exchange rate system 129, 139, 141, 142, 144, 145
forecasting see availability heuristic and observed bias in growth forecasts: study; forecasting ability; forecasting errors; motivational and cognitive factors in optimistic earnings forecasts: experimental study; weak and strong individual forecasts: study
forecasting ability 287–8
forecasting errors 267, 268, 269, 273–9, 281
foreign investment 124, 125–6, 130–31
foreign markets 332, 333
Foster, D. 260
Fox, C. 393
framing effects
and annuity markets 37
described 8, 308–9
information presentation, number of choices, financial knowledge effects 36–41, 42
and optimistic earnings forecasts 216, 217, 219, 223, 230, 231–2
see also framing effects, selective information and market behavior: an experimental analysis
framing effects, selective information and market behavior: an experimental analysis conclusions 20–21
disposition effect 10, 19–20
experiment: participants, design and procedure 10–15, 22–4
<table>
<thead>
<tr>
<th>Term</th>
<th>Page Numbers</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>experimental results</td>
<td>15–20</td>
<td></td>
</tr>
<tr>
<td>framing effects</td>
<td>8–10, 17–20</td>
<td></td>
</tr>
<tr>
<td>introduction</td>
<td>7–8</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>105, 109, 111, 112, 114, 115, 116, 117, 118, 121</td>
<td></td>
</tr>
<tr>
<td>Frankel, R.</td>
<td>266</td>
<td></td>
</tr>
<tr>
<td>fraudulent financial reporting</td>
<td>232</td>
<td></td>
</tr>
<tr>
<td>free option</td>
<td>57, 58, 59, 60, 61, 62, 63</td>
<td></td>
</tr>
<tr>
<td>Friedman, D.</td>
<td>329</td>
<td></td>
</tr>
<tr>
<td>Friedman, M.</td>
<td>305</td>
<td></td>
</tr>
<tr>
<td>Friedman effect</td>
<td>381–2</td>
<td></td>
</tr>
<tr>
<td>fund managers, and financial crisis contagion</td>
<td>125, 126</td>
<td></td>
</tr>
<tr>
<td>fundamental analysis, and investment decisions in Malaysia</td>
<td>408, 409</td>
<td></td>
</tr>
<tr>
<td>fundamental sentiment</td>
<td>see rational sentiment</td>
<td></td>
</tr>
<tr>
<td>fundamental values</td>
<td>82, 85, 199, 325, 379, 380, 381</td>
<td></td>
</tr>
<tr>
<td>‘fundamentals-based’ financial contagion</td>
<td>122</td>
<td></td>
</tr>
<tr>
<td>gains</td>
<td>394</td>
<td></td>
</tr>
<tr>
<td>conditional risk attribution (CRA)</td>
<td>50, 51–3</td>
<td></td>
</tr>
<tr>
<td>and disposition effect</td>
<td>10, 65, 66, 317, 348, 350</td>
<td></td>
</tr>
<tr>
<td>in framing effects, selective information and market behavior: an experimental analysis</td>
<td>19, 20</td>
<td></td>
</tr>
<tr>
<td>and individual investor decisions: studies</td>
<td>69, 70, 71, 72, 73, 74, 75, 76, 77, 78</td>
<td></td>
</tr>
<tr>
<td>distribution in partial moments</td>
<td>48–50</td>
<td></td>
</tr>
<tr>
<td>generalized conditional risk attribution (GCRA)</td>
<td>56, 57, 58, 59, 60, 61</td>
<td></td>
</tr>
<tr>
<td>and holding on to losers: Finnish evidence: a study</td>
<td>347, 349, 352, 353–9</td>
<td></td>
</tr>
<tr>
<td>and investment decisions in Malaysia</td>
<td>45, 46, 47, 48</td>
<td></td>
</tr>
<tr>
<td>investment decisions in Malaysia</td>
<td>410, 411, 412</td>
<td></td>
</tr>
<tr>
<td>and prospect theory</td>
<td>305, 311, 312, 313, 314, 315, 316, 317, 346</td>
<td></td>
</tr>
<tr>
<td>and regret</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>and risk budgeting</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>stock exchange in Malaysia</td>
<td>406</td>
<td></td>
</tr>
<tr>
<td>see also holding winners; missed gains; selling winners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>gamblers fallacy</td>
<td>328</td>
<td></td>
</tr>
<tr>
<td>Garvey, R.</td>
<td>156, 159, 165</td>
<td></td>
</tr>
<tr>
<td>GDP change</td>
<td>270, 271</td>
<td></td>
</tr>
<tr>
<td>GDP growth</td>
<td>408, 409</td>
<td></td>
</tr>
<tr>
<td>gender</td>
<td>352, 353, 354, 355, 357, 358, 406, 408</td>
<td></td>
</tr>
<tr>
<td>generalized conditional risk attribution (GCRA)</td>
<td>55–61</td>
<td></td>
</tr>
<tr>
<td>geographic distance</td>
<td>131–2, 137, 138, 146</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>106, 109, 112, 114, 116, 118, 121</td>
<td></td>
</tr>
<tr>
<td>Gervais, S.</td>
<td>244, 258, 332</td>
<td></td>
</tr>
<tr>
<td>Gilovich, T.</td>
<td>67, 69</td>
<td></td>
</tr>
<tr>
<td>Glaser, M.</td>
<td>243–4</td>
<td></td>
</tr>
<tr>
<td>global financial crisis (2008–9)</td>
<td>115, 259</td>
<td></td>
</tr>
<tr>
<td>Gneezy, U.</td>
<td>360, 396, 402–3</td>
<td></td>
</tr>
<tr>
<td>goals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and homo communitatis behavioral finance model</td>
<td>177, 184, 190, 191</td>
<td></td>
</tr>
<tr>
<td>and optimistic earnings forecasts</td>
<td>217, 218, 221, 222, 225, 226, 227–9, 230, 231</td>
<td></td>
</tr>
<tr>
<td>gold, and overconfidence and active management: study</td>
<td>249, 250</td>
<td></td>
</tr>
<tr>
<td>Gompers, P.A.</td>
<td>104, 212, 261</td>
<td></td>
</tr>
<tr>
<td>goods and services, and homo communitatis behavioral finance model</td>
<td>170</td>
<td></td>
</tr>
<tr>
<td>Gort, C.</td>
<td>245, 249, 250, 252, 254, 255, 257</td>
<td></td>
</tr>
<tr>
<td>government optimization and currency crises</td>
<td>124</td>
<td></td>
</tr>
<tr>
<td>Graham, J.R.</td>
<td>243–4</td>
<td></td>
</tr>
<tr>
<td>gravity model, and psychic distance in the eight-year crisis: study</td>
<td>123, 132, 141–3, 145–6</td>
<td></td>
</tr>
<tr>
<td>Greenspan, A.</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>Griffin, D.</td>
<td>82, 242, 329, 382</td>
<td></td>
</tr>
<tr>
<td>Grinblatt, M.</td>
<td>104, 347, 349, 350, 351–2, 359, 360</td>
<td></td>
</tr>
<tr>
<td>Grossman, S.</td>
<td>199–200, 265</td>
<td></td>
</tr>
<tr>
<td>Grou, B.</td>
<td>390–91</td>
<td></td>
</tr>
<tr>
<td>growth forecasting</td>
<td>264, 265–6</td>
<td></td>
</tr>
<tr>
<td>see also availability heuristic and observed bias in growth forecasts: study</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Han, B.</td>
<td>359, 360</td>
<td></td>
</tr>
<tr>
<td>Harris, M.</td>
<td>327</td>
<td></td>
</tr>
<tr>
<td>health behavior, and negative message framing</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Heath, C.</td>
<td>360, 393–4</td>
<td></td>
</tr>
<tr>
<td>hedging</td>
<td>52, 55–6, 126</td>
<td></td>
</tr>
<tr>
<td>hedonic motivation, and homo communitatis behavioral finance model</td>
<td>172, 173, 183–4, 191–3</td>
<td></td>
</tr>
<tr>
<td>Heilman, K.</td>
<td>10, 360</td>
<td></td>
</tr>
<tr>
<td>Helsinki Exchanges (HEX)</td>
<td>349–51</td>
<td></td>
</tr>
<tr>
<td>Hendershott, T.</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>Hens, T.</td>
<td>316–17, 319</td>
<td></td>
</tr>
<tr>
<td>herding</td>
<td>103, 126–7, 129, 146, 287, 288, 299, 405, 412</td>
<td></td>
</tr>
<tr>
<td>see also intentional herding in stock markets: study</td>
<td></td>
<td></td>
</tr>
<tr>
<td>‘herding-free’ markets</td>
<td>104–5, 107–17, 118</td>
<td></td>
</tr>
<tr>
<td>Hernandez, L.F.</td>
<td>122, 125, 128</td>
<td></td>
</tr>
<tr>
<td>heuristics</td>
<td>25, 26, 34, 46–7, 391</td>
<td></td>
</tr>
<tr>
<td>hierarchies, and homo communitatis behavioral finance model</td>
<td>171, 174–6, 178, 180–81, 196–8</td>
<td></td>
</tr>
<tr>
<td>high earnings</td>
<td>287, 288, 289, 290–98</td>
<td></td>
</tr>
</tbody>
</table>
high financial knowledge level 28, 30–33, 34–6, 38, 41, 42
high information overload 30–32, 33–4, 35, 36, 38, 40, 41, 42
high information search costs 28, 30, 31, 32–3
high information state 329–30, 331, 332, 335, 337–8, 340–41, 342
high knowledge level 27
high noise state 329, 331, 332, 335–6, 337, 340, 341, 342
high number of choices 28, 30, 31, 32, 33, 34–6
high similarity of choices 28, 34–6
higher transaction costs effects on trader behavior: study conclusions 163–4
data 156–8
empirical results 158–63
introduction 155–6
hindsight, as a judgment bias 301
Hirshleifer, D. 104, 199, 287, 325, 365–6
historical returns
and business and consumer sentiment impact on returns: Brazilian evidence: a study 363
and holding on to losers: Finnish evidence: a study 347, 349, 352–3, 354, 355, 357, 358–9
and overconfidence and active management: study 246, 248–51, 255, 256, 257
holding 67, 70–71, 347, 349
see also holding losers; holding on to losers: Finnish evidence: a study; holding period length; holding winners
holding losers 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78
see also disposition effect
holding on to losers: Finnish evidence: a study
data description 349–51
discussion 359
empirical results 356–9
introduction 346–7
methodology 351–6
previous research 347–9
holding period length 352, 353, 354, 355, 357, 358
holding winners 68, 69, 70–71, 72, 73, 74, 75, 76, 77, 78
home markets, and behavioral traders and closed-end country funds: study 332, 333
homo communitatis behavioral finance model applications to behavioral economics and finance 183–5
implications for practice 189–94
incorporation of non-economic concepts 167–9
introduction 166–7
model described 169–82
example: an anniversary celebration 173–6, 177
example: fakaafe 166, 169, 178, 180–82, 196–8
formal, non discursive, specifications 180, 182
formalizing the model 176–8, 179–80
model in detail 170–73
probability, use of 167, 171, 185–9, 191–3
homo economicus 166, 172, 185–6
Huang, R.D. 104, 106–7, 109, 111
Huber, J. 222, 223, 310
Huettel, S.A. 392–3
human behavior, non-economic concepts 168–9
Hussain, S. 221, 410
Hwang, S. 104, 106, 115
I/B/E/S 269, 273–6
Ibrahim, Anwar 409–10
identity 166–7, 168, 174
illusion of control see ambiguity aversion and illusion of control: Brazilian evidence: experimental study
illusion of knowledge 7
imaginary thinking, and optimistic earnings forecasts 215
implicit transaction costs 155
incomplete information 221–2, 223, 225–6, 228, 230
indexes see crisis index (CIND); market indexes
Indian investors 406, 408
individual trader sentiment 362
individuals, and homo communitatis behavioral finance model 177, 178, 179–80, 182, 183–4, 185, 190
inflation
and business and consumer sentiment impact on returns 367, 368, 369, 371, 372, 373
and mutual fund flow and investor sentiment relationship: study 206, 207, 208, 209, 210, 211
influences, and human behavior 168
information
and active investment management 48
and availability heuristic and observed bias in growth forecasts 264, 266, 268–9, 281–2, 283
behavioral biases and stock prices 325
and behavioral traders and closed-end country funds: study 329–31, 332, 333
and higher transaction costs effects on trader behavior: study 158
and intentional herding 103–4, 105, 107
and investment decisions 103, 406
on investment risk 7
and overreaction of exchange-traded funds: study 84, 85, 86
and under/overreaction 81, 82
and unintentional (spurious) herding 103

see also active information; base rate information relevance/neglect; CNN news; framing effects, selective information and market behavior: an experimental analysis; information-adjusted noise model: Australian evidence: a study; information asymmetries; information cascades; information completeness; information events; information in financial decision making: experimental analyses; information overload; information pricing errors; information processing biases; information processing capacity; information quantity; information search; information search costs; information state; information traders; information usage; informational value; irrelevant information; knowledge; missing information inferences; news data; noise traders; nutritional labeling information; political news; private information signals; relevant information; selectively distributed information; semantically differentiated information

information-adjusted noise model: Australian evidence: a study
calculating behavioral errors 383–6
conclusion 388
inefficient markets 381–3
introduction 379–80
model 380–81
outperforming the market 386–7
information asymmetries 127, 129
information cascades 103–4, 126, 127–8
information completeness 215, 216, 217, 218, 221–3, 224, 225–6, 227–9, 230
information events 380, 381, 384, 385, 388
see also private information signals; triggers
information in financial decision making:
experimental analyses
conclusions 41–2
experimental tests of information overload effects 27–41
experiment 1: information display, number of choices and financial knowledge 30–34
experiment 2: similarity, number of choices and financial knowledge 34–6
experiment 3: information framing and financial knowledge 36–41
information overload 25–7
introduction 25
information overload 25–7, 41, 156, 330
see also high information overload; high information state; information quantity information presentation see information in financial decision making: experimental analyses
information pricing errors 379, 380, 382, 383, 384, 385, 386, 387, 388
see also stock mispricing
information processing biases 215, 219, 287–8, 327
information processing capacity 25
information quantity 7, 25, 26
see also information overload; information state
information search 27
information search costs 26, 28, 30, 31, 32–3, 34, 199–200
information state 329–31, 332, 335, 337–8, 340–41, 342
information traders
and financial crisis contagion 126
and information-adjusted noise model 379, 380, 381, 387, 388
and information search costs 200
and investor sentiment 364
and overreaction of exchange-traded funds: study 84, 85, 101
information usage 26
informational value 127–8, 222, 223
initial public offerings (IPOs) 265
instantiated version of a social practice 171, 174, 178
institutional factors
and financial crisis contagion 128–9
and psychic distance in the eight-year crisis: study 132, 139, 141, 142, 143–6, 148
and stock prices 325, 327, 328
institutional incentives
and forecasting bias 287
and optimistic earnings forecasts 215, 216, 217, 219
in institutional trader sentiment 362, 365
institutional traders 126, 155, 157, 158–60, 161–4, 349
instrumental practices, and *homo communitatis* behavioral finance model 171
intentional herding in stock markets: study conclusions 117
database 105–6, 121
empirical results 111–17, 118
international markets 104–5
introduction 103–5
methodology 106–11
interest rates 124–5, 367, 368, 369, 371, 372, 373, 408, 409
international equities, and overconfidence and active management: study 248–9, 250, 251, 252
international exchange-traded funds (ETFs) 81, 86, 87, 88–9, 90, 95–7, 98, 99–100, 101
*International Financial Statistics* (IMF) 133, 134
international markets see intentional herding in stock markets: study
International Monetary Fund (IMF) 133, 134, 135, 136, 139
Internet 7
intrinsic practices 168, 171–2, 174, 191, 193
intuition 302
investment advice see behavioral finance and investment advice: study
investment choices 36, 37, 38, 40, 41, 42
see also choice principles; complexity of choices; quantity of choices; similarity of choices
investment decisions
contingency risk attribution (CRA) 50–55 described 45–8
and emotions 103
generalized contingency risk attribution (GCRA) 55–61
and *homo communitatis* behavioral finance model 170
irrational, sentimental shocks 129–30
Malaysia 405, 406, 408–12
partial moments defined 48–50
rationality 103, 105, 109–10
risk budgeting 61–2
utility theory 48, 129
investment decisions matrix 45–6, 47, 50–53
investment default 27, 33, 34–6, 38, 40, 41, 42
investment errors
and contingency risk attribution (CRA) 50, 51–2, 53
and disposition effect and individual investor decisions: studies 69, 70–71, 72–3, 74, 75, 76, 79
and generalized contingency risk attribution (GCRA) 57, 58, 59, 60, 61
and investment decisions 45–8
and risk budgeting 62
see also buying losers; holding losers; losses; missed gains; selling winners
investment frame, and annuity markets 37
investment framing bias 38, 40, 41
investment management skill 47, 48
Investor Intelligence (II) bullish sentiment 200, 201–2, 203, 207, 208–10, 211–12
investor sentiment 362, 364
invisibility 46, 50, 51, 60, 61
irrational, sentimental shocks 129–30
irrational business sentiment 363, 366, 371, 374, 375, 376
irrational consumer sentiment 363, 366, 372, 373–4, 375, 376
irrational herding 103–4
irrelevant information and earnings forecasting 233
and framing effects 7, 231–2
and framing effects, selective information and market behavior: an experimental analysis 8, 9, 11, 12, 13, 14, 15, 17–19, 20, 21
Iyengar, S. 26
January, and mutual fund flow and investor sentiment relationship: study 206, 207, 208, 210, 212
Japan 83, 86
Jeffrey, H.J. 167, 176, 178, 182, 183
Jegadeesh, N. 83, 308, 360, 381
job security 260
Johanson, J. 130
John Hancock Financial Services Defined Contributions Plan Survey 29–30
Johnson, E.J. 317
Johnson, R.D. 222, 223
Jomo, K.S. 412
judgment biases 301
Kaminsky, G.L. 122, 125, 126, 140–41, 148
Kandel, E. 328
Kardes, F.R. 222

Brian Bruce - 9781849809108
Downloaded from Elgar Online at 03/27/2019 05:37:51AM
via free access
Kelley, H. 325, 328, 329–30, 334
Kelly, J. 283–4
Keloharju, M. 212, 347, 349, 350, 351–2, 360
Klar, Y. 223
Klayman, J. 283–4
Klibanoff, P. 327, 332
Knight, F. 392, 393
knowledge
availability heuristic and observed bias in growth forecasts: study 264, 266, 268–9, 281–2, 283
homo communitatis behavioral finance model 170, 171, 177, 178, 190–91, 194
information search 27
overconfidence 261
see also financial education; financial experience; information traders; noise traders; skills; university degree
Krugman, P. 124
Kuala Lumpur Stock Exchange Berhad (KLSEB) 405
Kuala Lumpur Stock Exchange (KLSE)/Bursa Malaysia 405–6, 407, 408–12
Kühberger, A. 8–9
Kyle, A. 84, 244, 362, 364
Lai, M.M. 408–9, 410–12
Lakonishok, J. 65, 104, 164, 244, 260, 346, 347, 362, 364
Langer, E.J. 395
large firms 205–6, 280, 410
Latin American financial crisis 122, 124–5, 147
see also Mexican financial crisis
lay people see low financial knowledge level
leader–follower relationship, and intentional herding measurement 104
Lee, B. 264–5, 266, 209, 282, 283
Lee, C. 205, 266, 325, 326, 342, 365
Lewinsohn, PM. 394–5
Lichtenstein, S. 242, 260
life-cycle effects 346, 349, 352, 358
see also age
Lim, C.F. 406, 408
Lin, H.W. 215, 217, 231, 265
liquidity 68, 81, 85–6, 89, 125, 126, 346, 347
Locke, PR. 155, 244, 349
London Stock Exchange 409
long-term earnings per share (EPS) growth see availability heuristic and observed bias in growth forecasts: study
long-term growth forecasting see availability heuristic and observed bias in growth forecasts: study
long-term overreaction, Malaysia 410, 411
losers
and overreaction of exchange-traded funds: study 88, 89, 90–91, 92, 93, 94–7, 98, 99–100, 101
under/overreaction 82, 83
see also buying losers; holding losers; holding on to losers: Finnish evidence: a study; losses; missed losses
loss aversion 65, 66, 311, 312, 314, 315, 317, 359
losses
and ambiguity aversion 394
and conditional risk attribution (CRA) 50, 51–3, 54–5
and disposition effect 10, 65, 66, 317, 348, 350
in framing effects, selective information and market behavior: an experimental analysis 19, 20
and individual investor decisions: studies 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78
distribution in partial moments 48–50
and generalized conditional risk attribution (GCRA) 56, 57, 58, 59, 60, 61
and holding on to losers: Finnish evidence: a study 347, 349, 352, 353–9
and investment decisions 45, 46, 47, 48
investment decisions in Malaysia 406, 410, 411, 412
and prospect theory 305, 311, 312, 313–14, 315, 316, 317, 346
and psychic distance in the eight-year crisis: study 133
and regret 66
and risk budgeting 62
see also buying losers; holding losers; holding on to losers: Finnish evidence: a study; losses; missed losses
Lovallo, D. 223, 244, 259–60
low earnings 287, 288, 289, 290–98
low financial knowledge level
certainty level 332
information in financial decision making: experimental analyses 28, 30–33, 34, 35, 36, 38, 41, 42
overconfidence and active management: study 242, 244, 245, 247, 249–51, 255, 256, 257, 258
low information overload 31, 32–3, 34, 35, 36, 38, 40, 41, 42
low information search costs 28, 30, 31, 32–3, 41, 43
low information state 329, 330–31, 332
low knowledge level 27
low noise state 329, 331, 332
low number of choices 28, 30, 31, 32, 33, 34, 35, 36
low similarity of choices 28, 34, 35, 36
lower partial moments 48, 49, 53, 54, 56, 57, 58, 59, 60
Luce, R.D. 45
Lusardi, A. 42
Lusenti Partners 247, 248, 251–2
macroeconomic fundamentals 124–5, 127, 128
‘magical thinking,’ and financial crisis contagion 130
Malay investors 406
Malaysia see behavioral finance in Malaysia
Malaysian stock market 405–6, 407, 408–12
male investors 406
management discussion & analysis (MD&A) 233
managers, availability heuristic and observed bias in growth forecasts: study 264, 266–8, 277, 283
Mann, S.C. 155, 244, 349
Mansor, M.I. 406, 408
market bias 52, 53, 56–7
market capitalization, Kuala Lumpur Stock Exchange (KLSE) 406, 407
market contribution to asymmetry normalization 56–7
market efficiency 81, 82, 108, 326–7, 359, 388 see also behaviorally efficient markets; efficient market hypothesis (EMH); market inefficiency
market indexes and intentional herding in stock markets: study 108–9
and overconfidence and active management: study 248, 251–3
returns 241, 243, 247–8, 259, 260 see also Bovespa index returns; Brazilian Consumer Confidence Index; Emerging Markets Bond Index (EMBI); NMI (notional market index)
market inefficiency 129, 364, 379–80, 381–3
market similarity, and psychic distance 131
market-to-book ratio 270, 272, 279, 280, 282
market value of equity, holding on to losers: Finnish evidence: a study 352–3, 354, 355, 357, 358
market’s responsibility 73, 76, 77–8
Markowitz, H.M. 47–8, 301, 303, 311
Masson, P. 122, 124, 127, 128
maximum permitted active risk exposure 55–6, 57, 59, 60, 61, 62
McNeil, B.J. 8
McNichols, M. 215, 217, 231, 265
mean-adjusted returns model, and overreaction of exchange-traded funds: study 87, 89
mean–variance analysis
versus expected utility theory 304
investment decisions 46–7
medium financial knowledge level 38, 41
Medvec, V. 67, 69
members of the community 168, 176, 179–80, 181–2, 183, 184
membership contagion 128, 137–8, 146
Mengis, J. 25, 26
mental accounting 348
mental compartments 130
Metrick, A. 104, 212
Mexican financial crisis 124–5, 147
see also psychic distance in the eight-year crisis: study
Mexico 106, 109, 111, 113, 115, 121 see also Mexican financial crisis
Miller, D.T. 67
miscalibration, and overconfidence 241, 242–3, 244, 248, 249–51, 255–6, 257, 258, 259, 260
Mishkin, F.S. 129
missed gains
conditional risk attribution (CRA) 50, 51–2
disposition effect and individual investor decisions: studies 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78
generalized conditional risk attribution (GCRA) 57, 58, 59, 60
investment decisions 45, 46, 47
missed losses
disposition effect and individual investor decisions: studies 69, 70, 71, 72, 73, 74, 75, 76, 77, 78
generalized conditional risk attribution (GCRA) 57
investment decisions 45, 46, 47
missing information inferences 215, 219, 221–2, 223
Mitchell, T.O. 184
moderate knowledge level 27
monsoonal effects and financial crisis contagion 124–5, 128
and psychic distance in the eight-year crisis: study 131–2, 133–4, 139, 140, 141, 142, 143, 144, 145, 148
Moore, E. 394
Moore, S.M. 395–6
morality 168
see also motivational and cognitive factors in optimistic earnings forecasts: experimental study
motivational and cognitive factors in optimistic earnings forecasts: experimental study discussion 231–4
introduction 215–16
method 224–6
results 226–30
theoretical background and hypotheses 217–24
MSCI World Index 248, 252
Mukerji, S. 394
Mullainathan, S. 326, 390
multi-attribute utility (MAU), and homo
communitatis behavioral finance model 191
Murphy, A. 156, 159, 165
mutual fund flow and investor sentiment relationship: study
conclusions 211–12
introduction 199–200
investor sentiment and mutual fund flow relationship 206–8
mutual fund flow 202, 203
mutual fund flow and market returns relationship 204–6
robustness tests 208–11
sentiment indices 200–202
summary statistics 202–3
mutual funds 81, 87, 126, 350
see also mutual fund flow and investor sentiment relationship: study
mutual preference independence, and homo
communitatis behavioral finance model 191
Nadro, J. 183
Nathan, S. 215, 217, 219
National Bureau of Economic Research (NBER) 270
negative active information 58
negative cumulative abnormal returns, and underreaction 82
negative earnings, and weak and strong individual forecasts: study 287, 288, 289, 290–98
negative feedback traders, and under/reaction 199
negative framing 8, 9, 11, 12, 13, 14, 15, 17–20
see also negative message framing
negative historical returns 353, 354, 355, 357, 358–9
negative information pricing errors 382, 383, 384, 385, 386
negative market bias, and conditional risk attribution (CRA) 52, 53, 54, 55
negative message framing 37, 38, 40, 41, 42
negative nonfinancial statement information 233
negative outcomes see buying losers; investment errors; losses; missed gains; selling winners
negative overreaction 382, 383, 384, 385, 386
negative underreaction 381, 383, 384, 385, 386
negatively framed buyers 9, 17–19, 20
negatively framed sellers 9, 17–20
neighbourhood effect, and financial crisis contagion 128
neoclassical economics 166, 167–8, 172, 191
net asset values (NAVs) and behavioral traders and closed-end country funds: study 326, 330–31, 332, 333, 334–6, 337–8, 340–41, 342
and closed-end country fund prices 325, 326
mutual funds 81
neutral framing, and information in financial decision making: experimental analyses 38, 40
neutral sentiment, and mutual fund flow and investor sentiment relationship: study 201
news data 325, 326, 327, 329–31, 337–40
see also political news
Nitzsch, R. von 309
NMII (notional market index) 108–9
noise trader risk 362, 364, 365, 382–3, 384, 385, 386
noise traders behavioral asset pricing models (BAPMs) 383
behavioral traders and closed-end country funds: study 327
business and consumer sentiment impact on returns: Brazilian evidence: a study 362, 363, 365–6
and financial crisis contagion 126, 127
overreaction of exchange-traded funds: study 84, 85, 101
sentiment (see irrational sentiment) and stock prices 199, 362, 364, 365
non-economic factors 167–9, 231–2
see also irrelevant information; political news non-linear weighting of probabilities, as a preference bias 301
normal hours trading 81, 83, 86, 87, 88, 89, 90, 91–2, 93, 94–5, 96, 97, 98, 99–100, 101
normalization of market contribution to asymmetry 56–7
nutritional labeling information 26, 42
objectively irrelevant information see irrelevant information
O’Brien, J. 22, 264–5, 266, 282, 283
Obstfeld, M. 124
Odean, T. 7, 10, 65, 66, 155, 156, 159, 199, 242, 244, 258, 259, 307, 309, 327, 329, 332, 348, 351–2, 358, 359, 382
O’Donoghue, T. 27
Ohtsuka, K. 395–6
oil, and overconfidence and active management: study 249, 250
older people 242, 256, 257, 258, 260
omission investment decisions 66, 67, 68, 69, 70–71, 78, 301
omission neglect 221–2
opportunity costs 69
optimal asset allocation 302, 303–4, 311–18
optimally motivated practice, and homo communitatis behavioral finance model 184
optimism, as a judgment bias 301, 302
optimism, dispositional 233
optimistic earnings forecasts 215, 216, 217, 219, 231
see also motivational and cognitive factors in optimistic earnings forecasts: experimental study
optimistic growth forecasting 265–7, 273–6, 277, 278–80, 281, 282
optionality see active information options, homo communitatis behavioral finance model 174, 175, 177, 178, 179, 181–2, 196–8
Osman, M.Z. 406
Ossorio, P.G. 168, 169, 174, 176, 178, 187
over-optimism 394, 395–6
overconfidence described 242, 309–10
and financial experience 332
and illusion of control 395–6
and information-adjusted noise model: Australian evidence: a study 382
investment decisions in Malaysia 411–12
as a judgment bias 301
and personal characteristics 243–4, 393–5
and private information 327
and under/overreaction 82
see also better than average effect;
overconfidence and active management: study
overconfidence and active management: study data and methods 245–8
discussion 258–61
introduction 241–2
linear regressions 256–8
related research on overconfidence 242–5
results 248–56
overinvestment, and availability heuristic and observed bias in growth forecasts: study 268
overreaction and behavioral traders and closed-end country funds: study 329, 330, 331, 332, 333, 336, 337, 340, 341, 342
described 81
empirical research 82–3, 329
and feedback traders 199
and information-adjusted noise model 379, 380, 382, 383, 384, 385, 386
and investment decisions in Malaysia 410–12
as a judgment bias 301
and optimistic earnings forecasts 215, 222
theories 82, 130
see also overreaction of exchange-traded funds: study; underreaction
overreaction of exchange-traded funds: study conclusions 101
hypotheses 83–6
introduction 81–2
literature review 82–3
research design 86–90
results 90–101
Palomino, F. 362, 364
paradigms, and homo communitatis behavioral finance model 170, 174, 175, 177–8
Park, C.W. 27
Park, C.Y. 7
partial moments 48–50, 52–5, 56–7, 58–60
partial risk exposure 50, 51, 53
passive investment management 47, 48, 50–55, 61, 63
Patterson, D.M. 104
Pearson, N. 328
pension fund management see overconfidence and active management: study
pension funds 359
pension plan performance, UK 258, 259
percentage change in the ratio of domestic claims to GDP 133, 134, 139, 141, 142, 143, 145
perfect foresight, and generalized conditional risk attribution (GCRA) 58
Index

personal characteristics 242, 245, 247, 256–8, 260, 343–4, 393–4
see also age; ethnicity; gender; personality characteristics; self-evaluation
personality characteristics 167, 170, 171, 173, 178, 183, 233, 394–5
Pesenti, P. 122, 124, 125, 148
pessimistic growth forecasting 266, 267, 273–6, 277, 278, 280, 281, 282
Peterson, D.R. 85–6, 87
phone-based trading 7
Phoon, Z. 406
piecewise power value function, and prospect theory 305, 306, 311–13, 316
plea bargaining 394
political news 408, 409–10
Pompian, M.M. 301, 302
portfolio performance, and holding on to losers: Finnish evidence: a study 359
portfolio theory 46–7, 303, 304
positions, and homo communitatis behavioral finance model 170, 171–2, 176, 177
positive active information 58
positive cumulative abnormal returns, and underreaction 82
positive earnings, and weak and strong individual forecasts: study 287, 288, 289, 290–98
positive feedback traders 199, 206, 212
positive framing 8, 9, 11, 12, 13, 14, 15, 17–20
positive historical returns 353, 354, 355, 357, 358–9
positive information pricing errors 382, 383, 384, 385, 386
positive market bias, and conditional risk attribution (CRA) 52, 53, 54, 55
positive outcomes 45, 46, 47, 69, 70–73, 74, 75, 76, 79
see also gains; losses; missed gains; missed losses
positive overreaction 382, 383, 384, 385, 386
positive returns, and investment decisions 47
positive underreaction 381, 383, 384, 385, 386
positively framed buyers 9, 17–19, 20
positively framed sellers 9, 17–20
Poterba, J.M. 82
practical financial education 242, 245, 247, 256–8
practices 170–76, 177, 178, 179–82, 183–5, 187–8, 190, 191, 192, 193–4, 196–8
preference errors 301
preferences 191–2, 301, 310
see also risk preferences; willingness to pay
Presson, P. 395
prices, stock see stock prices
principles 168–9, 170
Pring, M.J. 201, 202, 212
prisoner’s dilemma, and overconfident investors 244
private information signals 287–8, 289, 290–98, 299, 327, 333, 335
see also information events; triggers

Brian Bruce - 9781849809108
Downloaded from Elgar Online at 03/27/2019 05:37:51AM
via free access
Handbook of behavioral finance

Rangelova, E. 348–9, 358
rating agencies, and financial crisis contagion
126
ratio of international reserves relative to broad
money 133, 134, 139, 140, 141, 143, 144, 145, 148
rational business sentiment 363, 366, 372,
374–5
rational consumer sentiment 363, 366, 372,
373–4, 375
rational sentiment 362–3, 365–6, 371, 372,
373–5
rationality
and ‘annuity puzzle’ 37
behavioral traders and closed-end country
funds 326, 327, 328, 330, 331, 332, 333,
335, 336
defined 390
and expected utility theory 301, 303
and growth forecasting 264, 265–6
investment decisions 103, 117, 129, 199
Malaysia 405, 409–10, 412
neoclassical economics 166
and probability 185–6
see also Bayes’ rule; bounded rationality;
expected utility theory; probability;
rational herding; rational sentiment
Raviv, A. 327
real effective exchange rate appreciation 133,
134, 139, 140, 141, 143, 144, 145, 148
recency effects, and availability heuristic and
observed bias in growth forecasts: study
266, 273
recursion, and homo communitatis behavioral
finance model 178, 179–80, 184
reference groups, and better than average effect
260
reference points
and disposition effect 10, 66, 348, 349
and holding on to losers: Finnish evidence: a study 359
and prospect theory 10, 305, 311–12, 315,
316, 317, 346
regret 66–7, 68, 69, 70–73, 74–6, 78–9, 301
regret aversion 60, 65, 66, 348
regret tolerance 60
regulations, and holding on to losers: Finnish evidence: a study 350
Reinhart, C.M. 122, 125, 126, 140–41, 148
relationships, and homo communitas
behavioral finance model 172, 173, 183,
184
relevant information 391, 393
representative heuristics 82, 130, 186, 223–4,
307–8
reputation, and intentional herding 104, 126
resources 170, 174, 178, 184, 283
responsibility 67
see also blame; credit (merit); market’s responsibility; self-responsibility
retail traders, and higher transaction costs
effects on trader behavior: study 155, 157,
158–64
retirement financial decision making see
information in financial decision making: experimental analyses
returns
and active investment management versus
market indexes 241–2, 244, 247–8
and availability heuristic and observed bias
in growth forecasts: study 270–71, 272,
277, 279–80
and conditional risk attribution (CRA)
50–55
and disposition effect 349
and holding on to losers: Finnish evidence: a study 352, 353, 354, 355
and investment decisions 47, 48
and irrational sentiment 362, 365
and market indexes 241, 243, 247–8, 259,
260
and mutual fund flow and investor sentiment
relationship: study 204–6
and overconfidence 243, 244
overconfidence and active management: study 246, 249–51
and partial moments 48–50
and rational sentiment 362, 365
see also business and consumer sentiment
impact on returns: Brazilian evidence: a study; gains; historical returns; losses;
negative historical returns; positive historical returns; profits
returns forecasts, and overconfidence and
active management: study 251
reversals 81, 84, 85–6, 91, 92–101, 410, 411
reward–risk principle 313, 315–17
Richards, A.J. 81, 83, 85, 86
Rieger, M.O. 306
Riepe, M.W. 8, 199, 301–2
risk
and availability heuristic and observed bias
in growth forecasts: study 271, 272, 280
and investment decisions 7, 46–8, 408–12
and mean–variance analysis 303
Index

and noise traders 362, 364, 365
versus uncertainty 392
see also ambiguity aversion and illusion of control: Brazilian evidence: experimental study; conditional risk attribution (CRA); country risk premia; debt-to-equity ratio; equity risk premium; generalized conditional risk attribution (GCRA); noise trader risk; reward–risk principle; risk ability; risk aversion; risk awareness; risk budgeting; risk exposure; risk-free assets; risk-free exposure; risk management; risk neutrality; risk preferences; risk re-budgeting; risk reduction; risk-taking; risky assets; sentiment risk
risk ability 314, 315, 317–18
risk attitude see risk aversion; risk neutrality; risk preferences; risk-taking
risk aversion
and behavioral traders and closed-end country funds: study 333
and framing effects, selective information and market behavior: an experimental analysis 9, 12, 16
and mean–variance analysis 303
and prospect theory 311, 312, 313–14, 317, 346
rational traders 364
and stock prices 325
risk awareness 314, 315, 317–18
risk budgeting 61–2, 63
risk exposure
conditional risk attribution (CRA) 50, 51, 52, 53, 54, 55
generalized conditional risk attribution (GCRA) 55–61
and investment decisions 45, 46, 47, 48
risk-free assets
and behavioral traders and closed-end country funds: study 332, 333
conditional risk attribution (CRA) 50, 51, 53
and investment decisions 45, 47
and mean–variance analysis 303
and prospect theory 311
risk-free exposure
conditional risk attribution (CRA) 50, 51, 53
generalized conditional risk attribution (GCRA) 57, 59, 60, 61
and investment decisions 45, 46, 47, 48
and risk budgeting 62
risk level of assets 11–15, 16
see also risk-free assets; risky assets
risk management 126
risk neutrality 12

risk preferences
framing effects, selective information and market behavior 11, 12, 16–17
and information in financial decision making: experimental analyses 38
and mean–variance analysis 303
and probability 392, 393–4
and regret 301
and uncertainty 392–3
risk re-budgeting 62, 63
risk reduction 52, 55–6, 61, 62, 63
risk-taking
and behavioral biases 301–2, 304–5
and framing effects, selective information and market behavior: an experimental analysis 9, 12
and higher transaction costs effects on trader behavior: study 155, 161, 164
investment decisions in Malaysia 411–12
and overconfidence 244, 258
and prospect theory 314–15, 346
and risk budgeting 61, 62, 63

risky assets
and behavioral traders and closed-end country funds: study 332, 333, 334
conditional risk attribution (CRA) 50, 51, 52
and financial crisis contagion 125, 126
and global financial crisis (2008–9) 259
and investment decisions 45
and mean–variance analysis 303
and prospect theory 311, 314, 317

Ritov, I. 67
Rizzi, J.V. 127, 129–30
roles, and homo communitatis behavioral finance model 171, 177, 178
Ross, L. 69
Ross, M. 67
Roth, J. 395
rules, and homo communitatis behavioral finance model 171, 177
rumors, stock exchange in Malaysia 405, 408, 409, 410, 412
Russian financial crisis 115, 122, 141
see also psychic distance in the eight-year crisis: study
Russo, E. 242–3, 244

Sachs, J. 122–3, 131
see also STV model
Salleh, M. 406
Salmon, M. 104, 106, 115
Sanbonmatsu, D.M. 221–2
Sargent, T. 264, 265, 266, 283, 284
satisfaction, and disposition effect and individual investor decisions: studies 69, 70–73, 74–6, 78–9
Savage, L.J. 303, 305, 390, 391–2
Scherreik, S. 199
Schipper, K. 219, 299
'schmoozing' 260
Schoemaker, P. 242–3, 244
second-generation models (SGMs) of currency crises 124
sector exchange-traded funds (ETFs) 86, 87, 88, 89, 90, 95, 96, 97, 98, 99–100
sectors, stock exchange in Malaysia 406
Sedor, L.M. 215, 219
Segal, U. 394
selectively distributed information 7, 8, 9, 11, 12, 13, 14, 15, 18–19
self-action 66, 67, 70, 71
self-blame 66, 67, 71, 76
self-control 65, 69, 348
self-evaluation 393–6
self-interest 166, 168, 172
see also prudential motivation
self-responsibility 69, 70, 71, 72–3, 76, 77–8
self-side analysts (SSAs), optimistic earnings forecasts 215, 216, 217, 219, 231
selling
and disposition effect and individual investor decisions: studies 68–9, 70–71, 72, 73, 74, 75, 76, 77, 78
and holding on to losers: Finnish evidence: a study 347, 352, 353, 354, 355, 357, 358
and investment decisions in Malaysia 410, 411, 412
tax benefits 65, 66, 346, 348, 349
see also missed gains; missed losses; selling decisions; selling propensity; selling winners
selling decisions 68–9, 72, 76
selling propensity 352, 353, 354, 355, 356–9
selling winners
disposition effect and individual investor decisions 68, 69, 71, 72, 73, 74, 75, 76, 77, 78
investment decisions in Malaysia 410, 411, 412
and regret 67
see also disposition effect; missed gains semantically differentiated information 8
Sent, E. 265
sentiment
and behavioral asset pricing models (BAPMs) 383
and behavioral traders and closed-end country funds: study 334
and financial markets 199
stock exchange in Malaysia 405
see also bearish sentiment; bullish sentiment; business and consumer sentiment
impact on returns: Brazilian evidence: a study; mutual fund flow and investor sentiment relationship: study
sentiment indices 200–202
sentiment risk 129–30
sequential forecasting, and weak and strong individual forecasts: study 287, 288, 289, 294–9
Servaes, H. 215, 216, 265
Sethi-Iyengar, S. 27
Sewell, M. 103
Shackle, G.L.S. 393
Sharma, V. 104
Sharpe, W.F. 47, 63, 243, 259
Sharpe ratio 47, 244, 253
Shiller, R.J. 129, 130, 199, 331, 337, 349
Shleifer, A. 199, 326, 362, 364, 365
short-term interest rates 367, 368, 369, 371, 372, 373
short-term overreaction, Malaysia 410–11
Siegel, J.J. 201
Siegel, L. 243, 259
signal extraction 127
and financial crisis contagion 127
signals, private information see private information signals
similarity of choices 26–7, 28, 34–6, 104
Simon, H. 265, 266
simulation, and homo communitatis behavioral finance model 167, 168, 169, 183–5, 193–4
simultaneity problem 267
simultaneous forecasting 287, 288, 289, 290–94, 298
Singapore Stock Exchange (SSE) 405
Sirri, E.R. 200, 307–8
Sivaramakrishnan, K. 264–5, 266, 269, 282, 283
skills 170, 177, 178
see also better than average effect; financial education; financial experience; financial knowledge; knowledge; professional financial experience; university degree
small firms 205–6, 280, 410
Smidt, S. 65, 346, 347
Smith, V. 284, 325
social comparison, and investment decisions in Malaysia 412
social practice canonical form (SPCF) 177–8, 179–85, 190–91, 194, 196–8
social practices 170–76, 177, 178, 179–85, 187–8, 190–91, 192, 193–4, 196–8
sociology 168
Soll, J. 242
Sortino ratio 47–8
Spain 106, 109, 111, 112, 114, 115, 116, 117, 118, 121
Special Settlement and Custody System (SELIC) 367, 368, 369, 371, 372, 373
speculation 346
spillover effects
of financial crisis contagion 125–7
and psychic distance in the eight-year crisis: study 131–2, 134–6, 139, 140, 141, 142, 143, 144, 145, 146, 148
stages, homo communitatis behavioral finance model 175, 177, 178, 179, 181–2, 184, 196–8
state-dependent expectations bias 327, 333, 334, 335–6, 337–42
state-dependent inertia in expectations updating 327
state-dominance 301, 303, 304, 313
status 173, 176, 177, 183, 184, 193, 233
Stein, A. 394
Stiglitz, J. 199–200
Stock Exchange of Malaysia and Singapore (SEMS) 405
stock markets see American Stock Exchange (AMEX); Australian stock exchange (ASX); Helsinki Exchanges (HEX); intentional herding in stock markets: study; Kuala Lumpur Stock Exchange Berhad (KLSEB); Kuala Lumpur Stock Exchange (KLSE)/Bursa Malaysia; London Stock Exchange; Malaysian stock market; Singapore Stock Exchange (SSE); Stock Exchange of Malaysia and Singapore (SEMS)
stock mispricing 81, 82, 83–4, 85, 86
see also information pricing errors
stock prices
and availability heuristic and observed bias in growth forecasts: study 268–9, 283
and business and consumer sentiment impact on returns: Brazilian evidence: a study 368
and disposition effect 10, 65–6, 348
and disposition effect and individual investor decisions: studies 68, 69, 70, 71, 72, 73, 74–5
and endowment framing 8
and framing effects, selective information and market behavior: an experimental analysis 10, 11, 12, 13, 14, 15–16, 17, 18–19, 20
and higher transaction costs effects on trader behavior: study 155, 156–7, 158, 159, 161, 164
and holding on to losers: Finnish evidence: a study 350, 352, 358–9
and institutional factors 325, 327, 328
and investment decisions in Malaysia 408
and irrelevant or selectively distributed information 8
and noisy traders 362, 364, 365
stock exchange in Malaysia 406, 411–12
see also behavioral asset pricing models (BAPMs); capital asset pricing models (CAPMs); earnings-to-price ratio; information pricing errors; stock mispricing
Stotz, O. 309
strong individual forecasts see weak and strong individual forecasts: study
students 224–5, 232, 244
STV model 122–3, 131–2
subjective expected utility (SEU) 186, 191, 192
see also expected utility theory
subpractices, and homo communitatis behavioral finance model 171, 174–6, 180–82
success, investment see gains; missed losses; positive outcomes
Summers, L.H. 82, 362, 364, 365
Svenson, O. 243
Sweeney, R. 86
Swiss Bond Index (SBI) 248, 251, 252
Swiss bonds 248, 249, 250, 251, 252, 255
Swiss equities 248–9, 250, 251, 252, 255
Swiss pension fund management see overconfidence and active management: study
Swiss Performance Index (SPI) 248, 252
symmetrical returns 50–52, 56
Szykman, L. 25, 27–36, 38
Tabak, B.M. 390–91
Tam, F. 410
tax benefits 65, 66, 346, 348, 349
Taylor, J.B. 122, 131
Taylor, S.E. 243, 394
technical analysis 408, 409
terms of trade 367, 368, 369, 371, 372, 373
Thai financial crisis see psychic distance in the eight-year crisis: study
Thorley, S. 259
thresholds 48, 50–51
Tille, C. 122, 124, 125, 148
time delays 185, 369–71
time factors
and advising clients on optimal asset allocation 317–18
and disposition effect and individual investor decisions: studies 68–9, 76
and information usage 26
and noise traders’ long-run survival 364
and regret 67
see also age; availability heuristic and observed bias in growth forecasts: study; holding period length; long-term overreaction, Malaysia; short-term interest rates; short-term overreaction, Malaysia; time delays; time-inconsistent preferences; time periods; timing; trading periods
time-inconsistent preferences 310
time periods
and behavioral traders and closed-end country funds: study 332, 333, 334, 335, 336, 340
and higher transaction costs effects on trader behavior: study 155, 156–7, 158–9, 161, 164
and intentional herding in stock markets: study 104–5
and overreaction of exchange-traded funds: study 86–7, 89, 90, 91–5, 96–7, 98, 101
and under/overreaction 82–3
see also after-hours trading; normal hours trading; time factors; timing; trading periods
timing 259, 325, 327, 328, 342
Titman, S. 287, 308, 360, 381
Tobin, J. 303
Toh, E. 405
Tomer, J.F. 390
trade competition in third markets 134–6, 139, 140, 141, 142, 143, 144, 145, 146
trade linkages 125, 134–5, 140, 146
trading costs 85
trading periods
exchange-traded funds 81, 83, 87
and framing effects, selective information and market behavior: an experimental analysis 19–20
mutual funds 81, 87
see also after-hours trading; normal hours trading
trading volume
and disposition effect 65–6, 347
and framing effects, selective information and market behavior 15, 16, 18, 20
and higher transaction costs effects on trader behavior: study 156–7, 158, 159, 161, 164
and overconfidence 244, 259
and overreaction of exchange-traded funds: study 85–6, 89, 90, 99–100
transaction costs 155, 259, 346
see also higher transaction costs effects on trader behavior: study
transparency 129
Treasury bills (90-day) 202, 203, 206
triggers
behavioral traders and closed-end country funds: study 329, 330–31, 332, 341, 342
overreaction of exchange-traded funds: study 85, 86, 88, 89, 90–92, 93–5, 97, 98, 99–100, 101
see also information events; private information signals
‘true’ financial contagion 122
true negative investment decisions see missed losses
true positive investment decisions see gains
Trueman, B. 104, 287–8, 299, 362, 364
Tufano, P. 200, 307–8
two-fund separation theory 303
type I error see losses
type II error see missed gains
UK 106, 109, 111, 113, 115, 116, 117, 121, 258, 259
uncertainty
and financial crisis contagion 127–8, 129
and investment decisions 46–7, 48, 58
and mathematical probability 186–90, 392
and motivational and cognitive factors in optimistic earnings forecasts: experimental study 221–2
and representative heuristics 186
versus risk 392

Brian Bruce - 9781849809108
Downloaded from Elgar Online at 03/27/2019 05:37:51AM
via free access
index

and risk preferences 392–3
and under/overreaction 82
underinvestment 267, 268
underreaction
described 81
empirical research 82–3, 329
and feedback traders 199
and information-adjusted noise model 379, 380, 381–2, 383, 384, 385, 386, 388
and noise traders 199
and optimistic earnings forecasts 215
theories 82, 130
unexpected equity fund flow 204–5, 206
uninformed traders see noise traders
unintentional (spurious) herding 103, 108
university degree 242, 247, 256, 257, 258
upper partial moments 49, 53, 54, 56, 57, 58, 59, 60
USA
disposition effect 347, 348–9
intentional herding in stock markets: study 105, 109, 111, 113, 114, 115, 116, 117, 121
interest rates 124–5
overreaction in stock markets 83, 85, 86
(see also overreaction of exchange-traded funds: study)
see also availability heuristic and observed bias in growth forecasts: study; behavioral traders and closed-end country funds: study; higher transaction costs effects on trader behavior: study; mutual fund flow and investor sentiment relationship: study
utility function 10, 304, 305, 311, 312, 313, 314, 315, 316–17, 333
Vahlne, J. 130
Valdes, R.O. 122, 125, 128
value function 10, 192, 305, 311–13, 316, 317, 346, 351, 358
values 166, 167, 170, 172–3, 183–4, 191–4
Varian, H. 327
Verma, R. 362, 363, 365, 368
versions of social practices 170, 171, 173, 174, 175, 177, 178, 180, 184
visibility 46, 50, 51, 59–61
visible similarities 131
volatility
of confidence intervals 246, 248–9, 250–51
gains and losses, and prospect theory 317, 318
and investment risk measurement 46–8
and overreaction of exchange-traded funds: study 85, 86, 89, 90, 98, 99–100
Wang, A. 244
Wang, F. 364
Wang, M. 306
Waring, B. 259
Warner, J.B. 89, 199, 200
Warther, V.A. 199, 200, 204, 205, 206, 208
weak and strong individual forecasts: study
concluding remarks 298–9
introduction 287–8
research method 288–9
results 290–98
weak individual forecasts see weak and strong individual forecasts: study
wealth 302, 303, 316–17, 364
Weaver, K. 27
Weber, M. 8, 10, 20, 65, 66, 348, 393
Welch, I. 103
Whitecotton, S.M. 215, 219, 231, 232, 234
willingness to pay 393, 396–8, 399, 400–403
Willis, R.H. 215, 219
Wilshire 5000 returns 202, 203, 204–5, 206–11
winners
and overreaction of exchange-traded funds: study 88, 89, 90–93, 94, 95, 96, 97–101
under/overreaction 82, 83
see also gains; holding winners; missed gains; selling winners
Wu, F. 156
Wysocki, B., Jr. 124–5
Yaniv, I. 215, 219, 223, 260
younger people 242, 256, 257, 258, 260, 395–6
Zamri, A. 410
Zeelenberg, M. 66
Zemsky, P. 103