Preface

The journey to produce this book began in 1998 when The Institute of Psychology and Markets was founded to study the impact of psychology on investor decision making. As the new century approached, the understanding of markets was moving beyond the perception that financial market participants are perfectly rational. The Institute was founded on the belief that new research would explore important dynamic processes previously ignored by traditional finance.

The Institute was interested in studying ways in which psychology played a role in understanding how financial markets function. The goal was to address issues surrounding the integration of many disciplines into the field of investing including social psychology, group psychology, psychiatry, organizational behavior, accounting, marketing, sociology, anthropology, behavioral economics, finance and decision making.

This initial meeting, held in Aspen, Colorado in December 1998, was limited to 25 participants and included some of the most important minds in the study of behavioral finance.

The Advisory Board of the Institute consisted of a diverse group of psychiatrists, psychologists, economists and market practitioners. They included:

Professor Brian Bruce, Department of Finance, Southern Methodist University
Mr David Dreman, Chairman of Dreman Value Advisors
Dr Richard A. Geist, affiliated with the Harvard Medical School
Dr Peter Neubauer, Clinical Professor of Psychiatry, New York University and Chairman Emeritus, Columbia University, Center for Psychoanalytic Training and Research
Professor Robert Olson, Department of Finance, California State University, Chico
Professor Fred Renwick, Department of Finance, New York University
Dr John W. Schott, affiliated with the Harvard Medical School
Professor Paul Slovic, President of Decision Research, Eugene, Oregon
Professor Vernon Smith, Director of Research and Education, University of Arizona
Professor Albert Solnit, Pediatrics and Psychiatry, Yale University
Mr Arnold Wood, President, Martingale Asset Management

As a result of this group’s efforts came the launching of the Journal of Psychology and Markets (currently known as The Journal of Behavioral Finance) in January 1999. The journal aimed to be a source for sophisticated analysis of developments in the rapidly expanding new area of behavioral finance. The journal brought together leaders in many fields to address the implications of current work on individual and group emotion, cognition and behavior in markets. These included specialists in personality, social, cognitive and clinical psychology; psychiatry; organizational behavior; accounting; marketing; sociology; anthropology; behavioral economics; finance and the multidisciplinary study of judgment and decision making.

This book takes the foundations created by the Journal of Behavioral Finance and
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strives to bring to readers new interdisciplinary research and theory to build a body of knowledge about psychological influences on market fluctuations and contribute to a new understanding of markets that can improve investment decision making. Offering penetrating insights into the performance of today’s financial markets, the book is an indispensable resource for academics and practitioners who want to utilize behavioral concepts to understand the ‘how, what, when and where’ of investing. We hope you enjoy the results of this effort.

Brian Bruce