Preface

The world of finance is mostly seen as a sideshow. Even so, finance serves important functions such as payment systems, the pooling and transferring of funds, saving and investing, contract design, organizational architecture, and risk management. Due to the rapid spread of more information, life for decision makers in the financial markets is becoming much more complicated. This is true for both investors and asset managers since it requires increasing use of experience and practical efforts to answer questions or improve performance in financial markets (De Bondt, Muradoglu, Shefrin & Staikouras, 2008).

Modern financial economic theory is based on the assumption that the “representative agent” in the economy is rational in two ways: The representative agent (1) makes decisions according to the axioms of expected utility theory and (2) makes unbiased forecasts about the future. An extreme version of this theory assumes that every agent behaves in accordance with these assumptions. Most economists recognize this extreme version as unrealistic; they concede that many of their relatives and acquaintances—spouses, students, deans, government leaders, and so on—are hope-less decision makers. Still, defenders of the traditional model argue that it is not a problem for some agents in the economy to make suboptimal decisions as long as the “marginal investor,” that is, the investor who is making the specific investment decision at hand, is rational (Thaler, 1999).

Today, many people are engaged in behavioral finance, and there is widespread disagreement about its boundaries and frontiers. Therefore, behavioral finance is one of the most dynamic, rapidly growing and promising fields of economic research by its scope and size (see, Stracca, 2004; Tiorle, 2002; Wachter, 2002).

Definition of behavioral finance supposes two important aspects - individual investors and entire market. In other words behavioral finance in a broad sense is divided to macro behavioral finance and micro behavioral finance (Pompian, 2006). Macro behavioral finance discloses and describes anomalies of efficient market hypothesis that could be explained by models of people behavior. Micro behavioral finance analyses behavior and deviations of individual investors’ and this separates them from strictly rational person, acting according to stern mathematical-statistic models (Jureviciene, Bikas, & Gausiene, 2012). As for the definition of behavioral finance in the early Eighteenth century, Adam Smith in The Theory of Moral Sentiments determined mental and emotional human interaction and communication basics. The author basing on such behavioral elements as pride, disgrace, insecurity, egoism tried to explain the actions of a man and the pursuit of profit (Smith, 1998). However, from the beginning of the Nineteenth century when economics was dominated by neoclassical theories, psychology was displaced from the factors which have an effect on discourse of economy until the mid of Twentieth century (Bikas, Jureviciene, Dubinskas, & Novickyte, 2012). Goldberg and Von Nitzsch (1999) defined behavioral finance as financial market theory oriented towards behavior; subject which is applied to facts that people behave
Preface

rationally only within specific limits. Thaler (1999) stated that behavioral finance is an integration of classical economics and financial theories within studies investigating psychology and decision making. Fromlet (2001) explained behavioral finance via individuals’ attitude and emotions in investment decision making process and market prices. Ritter (2003) stated that behavioral finance strives to supplement standard financial theories introducing psychological dimension into decision-making process (Bikas, Jureviciene, Dubinskas, & Novickyte, 2013). Stracca (2004) emphasize that the focus of behavioral finance is on a positive description of human behavior especially under risk and uncertainty, rather than on a normative analysis of behavior which is more typical of the mainstream approach. According to Shefrin (2001), behavior finance is the study of how psychology affects financial decision making process and financial markets. Since psychology explores human judgment, behavior and welfare, it can also provide important facts about how human actions differ from traditional economic assumptions. Weber (1990) makes the following observation: “Behavioral finance closely combines individual behavior and market phenomena and uses knowledge taken from both the psychological field and financial theory.”

Behavioral finance is a young new field, with its formal beginnings in the 1980s. Now, behavioral finance is poised to replace neoclassical finance as a dominant paradigm of the discipline and it gets much attention for understanding the behavior of investing in public in the current capitalist world. It considers psychological and sociological factors as important input to financial analysis and decisions and gains increasing acceleration in academic research and practical application in the world. Behavioral finance is the study of how psychology impacts financial decisions in households, markets and organizations. The main question is: What do people do and how do they do it? Behavioral finance explains many reactions in financial markets which appear to be contrary to the conventional theory and it makes an important contribution to avoiding from serious mistakes in deciding good investment strategies. Despite some interesting approaches, behavioral finance can also make a contribution to improve assets performance however it can hardly pick single winners from the market (Fromlet 2001; De Bondt, Muradoglu, Shefrin & Staikouras, 2008).

The uniqueness of behavioral finance arises from its integration and foundation of many different schools of thought and fields. Scholars, theorists, and practitioners of behavioral finance have backgrounds from a wide range of disciplines. The foundation of behavioral finance is an area based on an interdisciplinary approach including scholars from the social sciences and business schools. From the liberal arts perspective, includes the fields of psychology, sociology, anthropology, economics and behavioral economics. On the business administration side covers areas such as management, marketing, finance, technology and accounting. This evolutionary process continues to occur because many scholars have such a diverse and wide range of academic and professional specialties. Behavioral finance is the result of the structure of various sciences (Ricciardi & Simon, 2000): Psychology- a science that analyses processes of behavior and mind, how processes are influenced by physical, psychical, and external environment of human being; finances- a system of formation, distribution and use of resources; sociology-systematic science about socio- behavior of human being or a group, emphasizing the influence of social relations on people’s attitude and behavior (Bikas, Jureviciene, Dubinskas, & Novickyte, 2013).

Behavioral finance is the paradigm where financial markets are studied using models that are less narrow than those based on Von Neumann–Morgenstern expected utility theory and arbitrage assumptions. Specifically, behavioral finance has two building blocks: cognitive psychology and the limits to arbitrage. Cognitive refers to how people think (Ritter, 2003). Cognitive psychologists have documented many patterns regarding how people behave (Barberis & Thaler, 2003; Ritter, 2003). Some of these patterns are as follows.
Figure 1. The important interdisciplinary relationships that integrate behavioral finance (Ricciardi & Simon, 2000)

Heuristics, or rules of thumb, make decision making easier. However, they can sometimes lead to biases, especially when things change. These can lead to suboptimal investment decisions. When faced with N choices for how to invest retirement money, many people allocate using the 1/N rule. If there are three funds, one-third goes into each. If two are stock funds, two-thirds goes into equities. If one of the three is a stock fund, one-third goes into equities. Recently, Benartzi and Thaler (2001) have documented that many people follow the 1/N rule (Ritter, 2003).

Overconfidence implies that individuals overvalue their knowledge or abilities (De Bondt, Muradoglu, Shefrin & Staikouras, 2008). Mahajan (1992, p. 330) defines over confidence as “an overestimation of the probabilities for a set of events (Ricciardi & Simon, 2000). Entrepreneurs are especially likely to be overconfident. Overconfidence manifests itself in a number of ways. One example is too little diversification, because of a tendency to invest too much in what one is familiar with. Thus, people invest in local companies, even though this is bad from a diversification view point because their real estate (the house they own) is tied to the company’s fortunes. People invest way too much in the stock of the company that they work for. Men tend to be more overconfident than women. This manifests itself in many ways, including trading behavior. Barber and Odean (2001) recently analyzed the trading activities of people with discount brokerage accounts. They found that the more people traded, the worse they did, on average. Additionally, men traded more, and did worse, than women investors (Ritter, 2003).

Mental accounting refers to how people categorize and evaluate financial outcomes (Henderson & Peterson, 1992). Shefrin and Thaler (1988) assume that people categorize wealth in three mental accounts: current income, current wealth, and future income. It is furthermore assumed that the propensity to consume is greatest from the current income account and smallest from the future-income account (De Bondt, Muradoglu, Shefrin & Staikouras, 2008). People sometimes separate decisions that should, in principle, be combined (Ritter, 2003).
**Preface**

_Representativeness_ is overreliance on stereotypes. Investors who regard recent time-series trends as representative of an underlying process are vulnerable to extrapolation bias. The “law of small numbers” is a related bias whereby people behave as if the statistical properties of small samples must conform to the properties of large samples. Investor overreaction is partly rooted in representativeness. The “gambler’s fallacy” is also connected to representativeness but leads investors to make unwarranted predictions of reversal (De Bondt, Muradoglu, Shefrin & Staikouras, 2008).

_Conservatism_; When things change, people tend to be slow to pick up on the changes. In other words, they anchor on the ways things have normally been. The conservatism bias is at war with the representativeness bias. When things change, people might underreact because of the conservatism bias. However, if there is a long enough pattern, then they will adjust to it and possibly overreact, underweighting the long-term average (Ritter, 2003).

Disposition effect refers to the pattern that people avoid realizing paper losses and seek to realize paper gains. For example, if someone buys a stock at $30, which then drops to $22 before rising to $28, most people do not want to sell until the stock gets above $30. The disposition effect manifests itself in lots of small gains being realized, and few small losses. In fact, people act as if they are trying to maximize their taxes. The disposition effect shows up in aggregate stock trading volume. During a bull market, trading volume tends to grow. If the market then turns south, trading volume tends to fall. The fact that volume tends to fall in bear markets results in the commission business of brokerage firms having a high level of systematic risk (Ritter, 2003).

_Anchoring_ is a form of bias where beliefs rely heavily on one piece of information, perhaps because it is was available first, and are not sufficiently adjusted afterward. For instance, investor forecasts may anchor on the price at which they bought a security. “Conservatism” is closely related. Investors may place excessive weight on past information relative to new information, i.e., they under react (De Bondt, Muradoglu, Shefrin & Staikouras, 2008).

Availability bias means that investors overweight information that is easily accessible, e.g., that is easily recalled from memory or that corresponds to a future scenario that is easy to imagine. People are likely to remember events that receive a lot of attention by the media and this influences their behavior (De Bondt, Muradoglu, Shefrin & Staikouras, 2008).

Limits to arbitrage refers to predicting in what circumstances arbitrage forces will be effective, and when they will not be (Ritter, 2003). Limited arbitrage plays a crucial role in behavioral asset pricing. A basic tenet of modern finance is that arbitrageurs force prices to converge to their true fundamental values. Yet, research has uncovered a series of financial market phenomena that do not conform to the notion that full arbitrage is always carried out. For this reason, behavioral asset pricing models focus on the limits that arbitrageurs face in attempting to exploit mispricing. Markets are not frictionless because of transaction costs, taxes, margin payments, etc. Therefore, the actions of noise traders (i.e., traders with biased beliefs, not based on fundamental information) may cause prices to be inefficient. As a result, arbitrage can be risky (De Bondt, Muradoglu, Shefrin & Staikouras, 2008).

One of the major criticisms of behavioral finance is that by choosing which bias to emphasize, one can predict either under reaction or overreaction (Ritter, 2003). Additionally, Statman (2008) discussed the many cultural differences that may influence investor behavior and how these differences may influence there commendations of a financial advisor. The author found that people in low-income countries have high aspirations relative to their current income. But it is not that they like risk. Rather, they pay...
with risk for a chance to move up in life. People in collectivistic countries can afford to take more risk because their in-groups provide down side protection. The propensities for risk, regret, and maximization vary by country of origin. Cultures vary, and culture matters (Statman, 2008).

Over the last few decades, behavioral finance has become a household name in the finance industry and our understanding of finance has increased a great deal, yet there are countless questions begging for answers. On the whole, financial decision making processes in households, markets and organizations remain a grey area waiting for behavioral researchers to shed light on it. Behavioral finance is still a relatively young field which is developing and refining quickly and a lot of behavior needs to be explored further. For example, how do people construct their investment portfolios? Which heuristics do they use to choose between an overload of assets? When do assets draw their attention and what effect does this have on their chosen allocations? How can we help people in improving their allocations? Moreover, when do people become overly optimistic or pessimistic? What effect does this have on market prices? How does this aggregate into market sentiments? Furthermore, how do people respond to sudden increases of fear in markets? What does this do with their expectations and decisions, and how this affects market prices? Over and above, what determines people’s personal benchmarks, or reference points? What determines the value they assign to money and consumption? What is the influence of priming? And, how does this aspect affect financial decisions and markets?

Behavioral finance is to be continued…(Baltussen, 2009).

**ORGANIZATION OF THE BOOK**

The book is organized into twenty six chapters. A brief description of each of the chapters follows:

Chapter 1 explores the evolution of modern behavioral finance theories from the traditional framework. It focuses on three main issues. First, it analyzes the importance of standard finance theories and the situations where they become insufficient i.e. market anomalies. Second, it signifies the role of behavioral finance in narrowing down the gaps between traditional finance theories and actual market conditions. In the end, it provides a synthesis of academic events that substantiate the presence of behavioral biases, their underlying psychology and their impact on financial markets.

Chapter 2 identifies poverty in Turkey. The authors argue that poverty in the light of behavioral finance and game theory. The authors of this chapter contend that each and every situation be approached like a game and claims that it shows the most sensible strategy in such games; in moves falling under the scope of finance, behavioral finance claims to prove that players do not always behave rationally.

Chapter 3 discusses consumer behaviors during periods of economic crises. The author argue that those countries going through tough times like economic crises can predict the change consumers experience so that they could take the necessary precautions brings them competitive advantage and helps them provide solutions accordingly. The author present the studies in Turkey into consumer behavior during periods of economic crises have shown that buying behavior of consumers change, that consumers resort to cheap good and services, and that they limit their spending on food the least.

Chapter 4 determines the relationship between planning retirement financially in middle-age period and some socio-economic variables. The authors planned as a quantitative research with 287 volunteer participants, who live in Nevşehir, Turkey, aged 40-59. They conclude that statistically no significant
difference has been found between the responses of women and men about planning the retirement financially. However, it has been verified that men’s financial plans for retirement were higher in rates than that of women.

Chapter 5 reviews financial education for child and youth. The author addresses although financial education consists of individuals of all ages, education of young people in the field of finance is more important. They present some applications for financial education.

Chapter 6 introduces the role of psychological factors in behavioral finance, thus explaining the theory of behavioral finance, the application of behavioral finance theory, the experimental work in behavioral finance, the utilization of psychological factors in behavioral finance in terms of beliefs (i.e., overconfidence, too much trading, optimism and wishful thinking, representativeness bias, conservatism bias, belief perseverance, anchoring, and availability bias) and preferences (i.e., prospect theory and ambiguity aversion).

Chapter 7 explores the relationships between financial distress and health. The authors suggest that financial educators and counselors should help financially distressed families so that families better deal with any financial problems or challenges. They present general model of the effect of financial stress on families.

Chapter 8 analyzes the economic, social, and cultural needs of elderly people to determine the poverty thereof in Ankara (the capital city of Turkey). The author reviews different types of vulnerabilities in terms of financial behavior in older age. She concludes that the income of elderly people was not sufficient, and that they could not sufficiently afford electrical power and water invoices, medicine, food, and clothing expenses.

Chapter 9 identifies the goal of investment decision making is to increase the net worth for the investor, through the effective management of money and credit through proper financial planning, savings and credit management. This chapter highlights ten such biases and throws light on how they impact investment behavior both positively and negatively. The author addresses future research directions.

Chapter 10 discusses social exclusion and poverty. The chapter identifies social exclusion, as result of individuals own conditions, and is the situation of being excluded from economic, social and cultural activities. The authors argue that this exclusion could be the consequence of poverty as well as the result of distinctions in age, gender, language, religion and lack of societal support. The authors of this chapter evaluate the 2020 objectives and achievements of the EU concerning social exclusion and poverty. They analyze Turkey’s harmony with the EU objectives on social exclusion and poverty issues in the process of its accession to the EU membership.

Chapter 11 gives an overview of the stochastic models and methods used in financial risk management. The author reviews the financial markets use stochastic models to represent the seemingly random behavior of assets such as stocks, commodities, relative currency prices such as the price of one currency compared to that of another, such as the price of US Dollar compared to that of the Euro, and interest rates. The author suggests that given the random nature of future events on financial markets, the field of stochastic processes obviously plays an important role in quantitative risk management.

Chapter 12 explores the research question of whether or not changes in circumstantial and internal variables can potentially affect the change in an individual’s financial risk tolerance. The authors use the lens of Heider’s (1958) attribution theory and Grable and Joo’s (2004) conceptual framework that help in achieving this purpose. The chapter sets the background for research conducted by various authors.
Chapter 13 analyses the levels of financial literacy, money attitude, self-esteem, financial capability and financial well-being of young employees, the differences in financial well-being based on demographic characteristics of young employees and the determinants of financial well-being among young employees in Malaysia. The chapter highlights the importance of financial literacy as living skills for the young employees to educate them on how to develop and maintain healthy financial behavior and habits for financial well-being.

Chapter 14 examines the predictors of financial management behavior in family. The authors test the reliability and validity of the Turkish version of the Financial Management Behavior Scale–FMBS developed by Dew and Xiao (2011) to measure individual’s saving, investment, expenditure and debt behavior in family. They conclude that demographic characteristics (monthly income of the family, education, employment status of the spouses), saving and investment decision, financial satisfaction and compared financial status was predicted of financial management behavior.

Chapter 15 analyses if even the simplest trading rules could take advantage of the market’s inefficiency and lead to profitable trading decisions. For this reason, the author examine the profitability of the simplest trading rules, using only the simple moving averages (SMA) rules that even an amateur investor could apply. The author argue that even if we take into account the most expensive transaction fees the trading rules signal profitable investment decisions; therefore even an amateur trader and/or investor who does not have a significant amount of money to invest (which may lead to reduced transaction costs) could take advantage of the market’s inefficiency.

Chapter 16 explores the Philippine health care delivery system and health expenditure. The authors address that the Philippines, compared to most Asian countries, produces more and better human resources for health. It has traditionally been a major source of health professionals to many countries because of their fluent English, skills and training, compassion, humaneness, and patience in caring. The authors contend that the Philippines are challenged by attracting and retaining staff in the under-served areas of the country. The government, as a whole, spent more on personal health care than the public health care each year from 2009 to 2011.

Chapter 17 discusses health care expenses of Turkey between 1990-2012. The authors argue that best practices of individuals and the society from the health services depend on taking the correct decisions on health policies. In addition, the thought that a country spending much on health services must have a perfect status of health should not be perceived as right. Although there have been many institutions carrying out the health services, it has been observed that the share separated for the health from the gross domestic product in Turkey increased until 2009 but decreased as of the mentioned year and it has been stated as low compared with the other countries. The authors present some statistics that help in achieving this purpose.

Chapter 18 investigates the cointegration and causal relation between financial development and energy consumption in the case of Turkey over the period 1960–2011. The authors conclude that a positive and statistically significant relationship between financial development and energy consumption in the long run. The authors provide empirical evidence that financial development is a determinant of energy consumption in Turkey. This chapter presents literature review and some implications for Turkey’s energy policy.

Chapter 19 present two major approaches to asset pricing. The first approach suggests that stock prices are determined rationally. This approach clearly maintains that psychology does not play a role in the pricing process of assets. Nevertheless, the second approach asserts the existence of behavioral factors in asset pricing. The authors review several studies contributed to the behavioral finance theory. They
Preface

contend investor sentiment theory is one of the behavioral finance approaches. This chapter examines the existence of investor sentiment factor in an out of sample market, namely Borsa Istanbul by using consumer confidence index as a proxy of investor sentiment.

Chapter 20 addresses there have been many crises with different degrees of influence since the beginning of 19th century. Among these crises are the 1929 financial crisis, Latin America, East Asia and Russia crisis. Authors analyze the 2008 crisis in this chapter. The overall aim of the chapter is to examine the effects of the global economic crisis on the PIIGS (Portugal, Ireland, Italy, Greece, Spain) countries’ budget deficit and debt stock with using Panel Data Analysis over the period 1983-2012.

Chapter 21 reviews the premise of Social Housing Institutions (SHIs) sustainability mechanisms. The authors aim to conduct an audit survey through a critical appraisal and analysis of one of South Africa’s social housing projects. The authors systematically review literature and documentation. Based on a survey, the authors report that most tenants currently living in the project earn low incomes; the rate of unemployment is high and the levels of education moderate.

Chapter 22 examines operating performance and capital structure for as well as capital expenditures, working capital and employment management for a reverse leverage buyout sample between 2000 and 2008. The authors argue that the reverse LBO corporations have superior accounting performances compared to their industries exact year of IPO and following years after public offering. The authors conclude that the firms continuously outperform their industry peers for the following four years of initial public offering, while the average debt/capital level decreases in years.

Chapter 23 discusses putting forth the relationship between Emotional Intelligence (EI) and conflict management with theoretical research. The authors reiterated the theoretical studies, state the necessity of having high level of Emotional Intelligence for accomplishing the decision making process and discuss the relationship between Emotional Intelligence, managers and managing conflict. This chapter concludes that managers having high Emotional Intelligence can understand and evaluate the conflicts among employees and encourage their followers in struggling; with comparison to the ones having low Emotional Intelligence.

Chapter 24 discusses in the world of enterprise organizations’ financial departments and resulting changes of structures of the financial sector entities, the effects of this structural changes in the operation system with the new business models. The authors present how financial system’s agencies and departments can fulfill the requirements of proactive nature revealed. Then they establish future research directions.

Chapter 25 revises definitions and short background of relationship marketing with focusing on components of the concept and relations with customer loyalty, customer value and basic notions. The authors discuss the change from classical marketing concept to the relationship marketing from competitive advantage perspective and probable problems on implication. The authors present financial effect of relationship marketing.

Chapter 26 analyzes the determinants of overconfident CEO appointments and the effect these appointments on competitor stock performance during managerial turnover within the firm. It also analyzes the turnovers that take place in S&P 500 firms and find that an overconfident successor appointed to the firm pertains to a significant positive impact on competitor’s stock price. The authors conclude that when the outgoing CEO is overconfident it is more likely for the firm to have an overconfident successor. They suggest that overconfidence should be accounted for in the CEO appointment and contracting practices.

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