# Acknowledgments

## PART ONE

### Foundations of Investor Behavior

#### CHAPTER 1

**Investor Behavior: An Overview**  
_H. Kent Baker and Victor Ricciardi_

- Introduction 3
- Organization of the Book 11
- Summary 20
- References 21
- About the Authors 23

#### CHAPTER 2

**Traditional and Behavioral Finance**  
_Lucy E. Ackert_

- Introduction 25
- Traditional Finance 26
- Behavioral Finance 31
- Summary 39
- Discussion Questions 39
- References 39
- About the Author 41

#### CHAPTER 3

**Behavioral Economics, Thinking Processes, Decision-Making, and Investment Behavior**  
_Morris Altman_

- Introduction 43
- Behavioral Economics, Heuristics, and Decision-Making 44
- Investment Heuristics and Investing in Financial Assets 45
- The Trust Heuristic and Decision-Making 48
- Other Critical Decision-Making Heuristics 49
Contents

Rational Investor Decision-Making in a World of Complex Information 56
Summary 58
Discussion Questions 59
References 59
About the Author 61

PART TWO

Personal Finance Issues

CHAPTER 4
Financial Literacy and Education 65
Michael S. Finke and Sandra J. Huston
Introduction 65
Examples of Financial Literacy Measures 68
Financial Literacy and Behavior 71
Financial Literacy Education 75
Summary 77
Discussion Questions 78
References 78
About the Authors 81

CHAPTER 5
Household Investment Decisions 83
Vicki L. Bogan
Introduction 83
Financial Market Participation 83
Market Friction Effects on Household Investment Behavior 85
The Effects of Behavioral Biases on Household Investment Behavior 87
Summary 93
Discussion Questions 94
References 94
About the Author 98

CHAPTER 6
Personality Traits 99
Lucia Fung and Robert B. Durand
Introduction 99
A Structural Model of Personality 100
Risk-Taking Behavior 103
Overconfidence 104
Personality and Gender 105
Personality as a Guide for Investors 107
Summary 108
Discussion Questions 109
CHAPTER 7
Demographic and Socioeconomic Factors of Investors
James Farrell
Introduction 117
Literature Review 118
Case Study: The Florida Department of Education Employees 122
Summary 131
Discussion Questions 132
References 133
About the Author 134

CHAPTER 8
The Effect of Religion on Financial and Investing Decisions
Walid Mansour and Mouna Jlassi
Introduction 135
Religions and Economic Factors: Dependence or Bifurcation? 136
Religion and Individual Investing Behavior 138
Summary 147
Discussion Questions 147
References 147
About the Authors 151

CHAPTER 9
Money and Happiness: Implications for Investor Behavior
Jing Jian Xiao
Introduction 153
Can Money Buy Happiness? 154
Can Happiness Buy Money? 162
Implications for Investor Behavior 164
Summary 165
Discussion Questions 165
References 166
About the Author 169

CHAPTER 10
Motivation and Satisfaction
Lewis J. Altfest
Introduction 171
Classical Economic Motivation 171
Behavioral Economic Motivation 173
Maslow’s Hierarchy of Needs 175
Criticism of Maslow’s Hierarchy of Needs 177
Higher Level Motivation 179
Humanism 181
Future Research and Practice 240
Summary 240
Discussion Questions 241
References 241
About the Authors 243

CHAPTER 14

Transpersonal Economics 245
Renée M. Snow
Introduction 245
Historical and Spiritual Overview of Money 248
The Western Eco/House 252
An Alternative Perspective 254
The Open Eco in Financial Planning 256
Summary 260
Discussion Questions 261
References 261
About the Author 264

CHAPTER 15

Advising the Behavioral Investor: Lessons from the Real World 265
Gregg S. Fisher
Introduction 265
Risk, Return, and the Investor: A Complex Relationship 266
Investments with People Problems 269
The Impact of Investor Behavior on Portfolios 272
How Advisors Can Help the Behavioral Investor 275
Turning Bias into Benefit: How to Profit from Investor Behavior 278
Summary 281
Discussion Questions 281
References 282
Disclosure 283
About the Author 283

CHAPTER 16

Retirement Planning: Contributions from the Field of Behavioral Finance and Economics 285
James A. Howard and Rassoul Yazdipour
Introduction 285
A Life Cycle Financial Planning and Wealth Management Model 286
Demographic and Macroeconomic Context 287
Biases, Heuristics, and Framing Effects on Retirement Planning 288
Hyperbolic Discounting 291
The Role of the Brain in Financial Decision-Making 293
Financial Decision-Making Quality and Age 295
The Role of Self-Awareness and Self-Control 296
CHAPTER 19
Emotions in the Financial Markets 347
Richard Fairchild
Introduction 347
Behavioral Finance and Prospect Theory 348
Emotions 350
Emotions in the Financial Markets 351
Emotional Finance and Unconscious Emotions 353
Emotional Corporate Finance—A Formal Model 356
Summary 360
Discussion Questions 361
References 361
About the Author 364

CHAPTER 20
Human Psychology and Market Seasonality 365
Lisa A. Kramer
Introduction 365
Moods, Emotions, and Sentiment 366
Weather, Mood, and Markets 366
Daylight, Mood, and Markets 367
Daylight Saving Time Changes, Mood, and Markets 373
Elation, Deflation, and Markets 374
Summary 376
Discussion Questions 377
References 377
About the Author 380

CHAPTER 21
Neurofinance 381
Richard L. Peterson
Introduction 381
Neuroscience Primer 382
Research Methods 385
The Neuroscience of Financial Decision-Making 387
The Implications of Neurofinance Research for Practitioners 395
Summary 397
Discussion Questions 398
References 398
About the Author 401

CHAPTER 22
Diversification and Asset Allocation Puzzles 403
Dimitris Georgarakos
Introduction 403
Household Stock Market Participation 404
Changes in Household Portfolios across Time 407
Differences in Household Portfolios across Countries 408
Portfolio Diversification 410
Household Stock Trading Behavior 412
Summary 415
Discussion Questions 416
References 416
About the Author 420

CHAPTER 23
Behavioral Portfolio Theory and Investment Management 421
Erick W. Rengifo, Rossen Trendafilov, and Emanuela Trifan
Introduction 421
Prospect Theory and Expected Utility Theory 421
Safety-First Portfolio Theory 426
SP/A Theory 427
Behavioral Portfolio Theory 430
Behavioral Asset Pricing Model 432
The BAPM, CAPM, and Three-Factor Model 432
Summary 435
Discussion Questions 435
References 435
About the Authors 438

CHAPTER 24
Post-Crisis Investor Behavior: Experience Matters 439
Joseph V. Rizzi
Introduction 439
Behavioral Finance Framework 440
History Dependent Risk Tolerance: The Collective Memory Hypothesis 446
Summary 452
Discussion Questions 453
References 453
About the Author 455

PART FIVE
Trading and Investing Psychology and Strategies

CHAPTER 25
The Psychology of Trading and Investing 459
Julia Pitters and Thomas Oberlechner
Introduction 459
Personality Variables 461
Affect and Cognition 463
News, Rumors, and Market Mood 470
Summary 471
CHAPTER 26
The Surprising Real World of Traders’ Psychology
Denise K. Shull, Ken Celiano, and Andrew Menaker
Introduction 477
What Science Reveals about How People Think 478
I Need to Be a Hero Again 485
The Heart of a Quant 487
Summary 489
Discussion Questions 490
References 490
About the Authors 493

CHAPTER 27
Trading and Investment Strategies in Behavioral Finance
John M. Longo
Introduction 495
Distinction between Trading and Investment Strategies 496
Active versus Passive Investment Strategies and Behavioral Finance 496
Average Investors Suffer from Behavioral Biases 498
Problems with Traditional Investment Strategies 499
Short-Term Behaviorally Based Trading Strategies 503
Long-Term Behaviorally Based Investment Strategies 508
Current and Future Trends in Behavioral Finance Strategies 509
Summary 510
Discussion Questions 511
References 511
About the Author 512

PART SIX
Special Investment Topics

CHAPTER 28
Ethical and Socially Responsible Investing
Julia M. Puaschunder
Introduction 515
Socially Responsible Investment 515
Historical Emergence 517
International Differences 520
Institutional Harmonization of FSR 523