

**The 2010 Annual
Meeting of the
Academy of
Behavioral Finance &
Economics**

PROCEEDINGS

September 15-17, 2010

Chicago, Illinois

www.aobf.org

Copyright © 2010 Academy of Behavioral Finance & Economics- ABF. Personal use of the materials contained in the present Proceedings book is permitted for respective authors. However, except for individual contributors who are the sole owners of their respective works, no part(s) of this book, either individually or collectively, can be reproduced in any form, print, electronic, or otherwise, for any purpose other than teaching. To obtain written permission for teaching purposes you may contact staff@aobf.org .

TABLE OF CONTENTS

TRACK “A” Papers

Individuals

- Paper 1:** Metanoia and the Market11
Philip Z. Maymin, NYU-Poly
- Paper 2:** Testing Alternative Theories of Financial Decision Making: A Survey Study with Lottery Bonds12
Patrick Roger, Strasbourg University
- Paper 3:** Stages In The Life Of The Weekend Effect: Evidence Of Behavioral Biases?13
Dennis Olson, American University of Sharjah; Charles Mossman, University of Manitoba; Nan-Ting Chou, University of Louisville

Microstructure and Microfinance

- Paper 1:** The Role Of Market Design In Alleviating Attention Constraints14
Pamela C. Moulton, Cornell University; Bidisha Chakrabarty, Saint Louis University
- Paper 2:** Convertible Debt Demographics.....18
Gina Nicolosi, Northern Illinois University
- Paper 3:** Market Failure in U.S. Microfinance: How Behavioral Finance and Economics Inform Understanding21

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Caroline Glackin, Shepherd University

Keynote Address:

Werner DeBondt, DePaul University

Getting into the Market

Paper 1:	The Demographics of Non-Participation.....	26
	Ann Marie Hibbert, West Virginia University; Edward R. Lawrence, Florida International University; Arun J. Prakash, Florida International University	
Paper 2:	Students and Retirement Savings Predictors	27
	Oliver Schnusenberg, University of North Florida; Chris Kalin, Wachovia Bank	
Paper 3:	Personality	30
	Robert Durand, University of Western Australia	
Paper 4:	Building A Better Mousetrap: The Psychology Of Dollar Cost Averaging	31
	Lee Dunham, Creighton University; Geoff C. Friesen, University of Nebraska-Leighton	

Corporate and Information Economics

Paper 1:	Can Real Options Unbias Acquisition Decisions?	33
	Joris Kil, Erasmus University Rotterdam	
Paper 2:	R&D Intensity, Capital Structure and Managerial Behavior	34
	Ajay Kongera, Old Dominion University; Mohamed M. Rahoui, Old Dominion University	
Paper 3:	Contextual Ambiguity: Experiment and Evidence	37
	Safa Gritli, Yokohama National University	

Special Session about SSRN: “Facilitating Research with the Social Science Research Network—An Editor’s Perspective

Victor Ricciardi, SSRN editor40

Risk Premiums

Paper 1: Problems in Measuring Contrarian Performance: A Reconciliation of Results from Alternative Methodologies41

Steven Jones, Indiana University

Paper 2: Pricing of Skewness in Emerging Markets42

Dmitry Shapiro, University of North Carolina-Charlotte; Xinde Zhang, University of North Carolina

Paper 3: Liquidity Risk Premium Puzzle and Possible Explanations45

Shu Tian, University of New Orleans; Peihwang Wei, University of New Orleans

Bubbles and Cycles

Paper 1: Riding Bubbles46

Nadja Guenster, Maastricht University

Paper 2: How Does Investor Sentiment Affect Stock Market Crises? Evidence from Panel Data47

Mohmed Zouaoui, University of Franche-Comte; Genevieve Nouyrigat, University of Grenoble; Francisca Beer, California State University of San Bernardino

Paper 3: Investor Behavior and Economic Cycle: The Impact of Human Biases and Cognitive Limitations on Economic Booms and Busts48

Beryl Chang, European School of Economics

Lunch and Joint Session

Paper 1: Fairness Norms and Self-Interest in Venture Capital/Entrepreneur Contracting and Performance49

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Richard Fairchild, University of Bath

Paper 2: What Drives Private Equity Firm Certification at Initial Public Offering? ...50

Donald Ross, Macquarie University

Paper 3: Entrepreneurial Overconfidence, Outside Equity and Successful Exits51

Craig Everett, Purdue University

Paper 4: Market-wide Sentiment, Underwriter Quality, and IPO Pricing55

Ning (Tony) Tang, Wilfrid Laurier University; Cynthia J. Campbell, Iowa State University; Yan Du, Barclays Global Investor; S. Ghon Rhee, University of Hawaii

Individual Stocks and Investors

Paper 1: Individual Investors' Additional Purchase and Repurchase of Stocks Previously Sold56

Cristiana Cerqueira Leal, University of Minho; Manuel J. Rocha Armada, University of Minho

Paper 2: Performances of Amateurs' Trades on a Public Internet Site: A Case of a Stock Exchange Contest57

Michel Blanchard, Universite Paris Dauphine; Philippe Bernard, University of Paris Dauphine

Paper 3: Double Then Nothing: Why Individual Stock Investments Disappoint.....58

Steve Foerster, University of Western Ontario

Sentiment

Paper 1: Why Bad News is Good News: Market Forecasts Based on Investor Reaction to Unexpected News62

Biff Robillard, Bannerstone Capital; Seth Bender

Paper 2: Agent Sentiment and Stock Market Predictability63

Chandler Lutz, University of California—Riverside

Paper 3: The Impact of Hurricanes on Investor Sentiment and Stock Market Returns..64

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Daniel Perez, University of Texas – Pan American; Daniel Huerta, University of Texas – Pan American

- Paper 4:** Fast Profits: Investor Sentiment and Stock Returns during Ramadan65
Tomasz Piotr Wisniewski, University of Leicester

TRACK “B” Papers

Executives and Decisions

- Paper 1:** Executive Compensation: An Examination of the Influence of TMT Compensation on Risk-Adjusted Performance66
William Kline, Temple University
- Paper 2:** Jump Bidding in Takeover Auctions: An Experimental Study67
Yuri Khoroshilov, University of Ottawa
- Paper 3:** Investor Sentiment and Real Investment68
R. David McLean, University of Alberta; Mengxin Zhao, University of Alberta

Real Estate

- Paper 1:** Loss Aversion and Anchoring in Commercial Real Estate Pricing: Empirical Evidence and Price Index Implications69
Sheharyar Bokhari, MIT—Center for Real Estate; David Geltner, MIT-Center for Real Estate
- Paper 2:** Can Real Estate Agents Impact Perceived Property Values?70
Michael Seiler, Old Dominion University; Mark Lane, Hawaii Pacific University; Vicky L. Seiler, John Hopkins University; David M. Harrison, Rawls College of Business
- Paper 3:** Speculative Behaviors and Mortgage Bubbles in the Real Estate Markets of China73
Sheng Wang, CUNY – The Graduate Center

Keynote Address:

Werner DeBondt, DePaul University

Information

Paper 1:	A Systematic Investors' Overreaction to Growth Consistency in Quarterly Accounting-Based Performance Measures76
	Abdulaziz Alwathainani, York University
Paper 2:	Content of Stock Spam Emails and Market Reactions77
	Xiankui Hu, Arkansas State University; Thomas McInish, Fogelman College of Business and Economics
Paper 3:	Evidence on Investor Behavior from Aggregate Stock Mutual Fund Flows81
	Evgenia Golubeva, University of Oklahoma
Paper 4:	Heterogenous Ambiguity Aversion: a Field Experiment among Small-Scale Stock Investors in China82
	Bei Zhang, Shanghai University of Finance and Economics

Futures, Exchange Rates and Commodity Markets

Paper 1:	Disposition Effect in Futures Commodity Market: Evidence on Behavioral Factors from Trade Simulation83
	Mouze Kebede, Texas Tech University
Paper 2:	Decision Making Process in Grain Marketing: A Study in the Canadian Market85
	Fabio Mattos, University of Manitoba; Stefanie Fryza, University of Manitoba
Paper 3:	Investor Sentiment and Exchange Rates from Global Perspective87
	Fang Fang, University of Texas—Pan American; Lifeng Li, University of Pan American

Bias and Investors

Paper 1:	Patriotic Name Bias and Stock Returns88
-----------------	---

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Marek Jochec, ISCTE Business School; Evangelos Benos, ISCTE Business School

Paper 2: Momentum and Behavioral Finance89

Ding Du, Northern Arizona University

Paper 3: Do All Individual Investors Lose by Trading?90

Shi Yongdong, Dongbei University of Finance and Economics; Zhuwei Li, Dongbei University of Finance and Economics

Institutional Investors

Paper 1: Do Institutions Pay to Play? Turnover of Institutional Ownership and Stock Returns93

Valentin Dimitrov, Rutgers University; Vladimir A. Gatchev, University of Central Florida

Paper 2: Investment Philosophies and Investment Beliefs Determine Investment Outcomes94

Andrew Mason, University of Surrey

Paper 3: Behavioral Aspects of Investment Fund's Markets: Are Good Managers Lucky or Skilled?95

Silvia BouYsas, Universitat Autònoma de Barcelona

Economic Decision Events

Paper 1: Powerball Jackpots: Cash Values, Taxes, and Hubris98

Deborah Gregory, University of Arizona

Paper 2: Rational vs. Heuristic: What Matters When Redeeming the Pledge?101

Kristiano Raccanello, Fundacion Universidad de las Americas Puebla; Enrique Reig, Fundacion Universidad de las Americas Puebla; Jayant Anand, University of Wisconsin; Adriana Mantilla Anot, Puebla

Paper 3: The Impact of Uncertainty-Induced Psychological Discomfort on Choice Preference: Testing a Novel Theory of Decision Making Under Uncertainty.....104

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Bill Neace, University of Harford

Paper 4: Decision making and Risk Aversion in the Cash Cab105

Richard Bliss, Babson College; Mark E. Potter, Babson College; Christopher Schwarz, University of California, Irvine

Crisis

Paper 1: The Global Financial Crisis – A Behavioral View106

Robert Grosse, EGADE Business School

Paper 2: Investor Perceptions in Response to Financial Crisis: Evidence from Emerging Markets107

Yongli Luo, University of Texas—Pan American

Paper 3: Market Impacts of LCTM: An Analysis Using State Price Distributions108

Merlyn Foo, Althabasca University; Edwin H. Neave, Queen’s University

Emerging Markets

Paper 1: Dynamic Interactions between Rational-Irrational Sentiments and Stock Returns in Emerging Stock Markets: Evidence from Turkey109

Gulfem Ozturk, University of Texas—Pan American; Gokce A. Soydemir, University of Texas—Pan American

Paper 2: The Survey of Disposition Effect on Fund Flows and Investment Companies Performance in Tehran Stock Market111

Mahmood Yahyazadehfar, University of Mazandaran; Shahabeddin Shams, University of Mazandaran

Paper 3: The Relationship between Market Sentiment Index and Brazilian Stock Rates of Return: a GNM Panel Data Analysis112

Henrique Castro, Universidade de São Paulo; Claudia Emiko Yoshinaga, Fundação Getulio Vargas

Paper 4: The Examination of Existence of Herd Behavior in Tehran Stock Exchange.....113

*Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and
Economics, September 15-17, 2010, Chicago, Illinois*

Mahmoud Salari, University of Tehran; Majid Khoshariat, University of
Tehran

METANOIA AND THE MARKET

Philip Z. Maymin
NYU-Poly
phil@maymin.com

If investors randomly switch between being rational and irrational, then eventually the market will be half rational and half irrational, even if all investors start off rational, no matter how low the switching probability is. Thus, mispricings can persist even with continued volume between two fundamentally identical investments. Multiple survey results for hypothetical investment scenarios support this metanoia model. In addition, the dynamics of a large market discrepancy in HSBC shares from 1992-1999 are consistent with metanoia. In short, the law of one price will be violated so long as there is any probability of switching: identical assets will have different prices.

TESTING ALTERNATIVE THEORIES OF FINANCIAL DECISION MAKING: A SURVEY STUDY WITH LOTTERY BONDS

Patrick Roger
Strasbourg University
proger@unistra.fr

We present the results of a simple, easily replicable, survey study based on lottery bonds. It is aimed at testing whether agents make investment decisions according to expected utility, cumulative prospect theory or optimal expectations theory, when they face skewed distributions of returns. We show that more than 55% of the 245 participants obey optimal expectations theory. They choose a distribution of payoffs which is dominated for second-order stochastic dominance and which would not be chosen according to cumulative prospect theory, for a large range of parameter values.

Our results first cast doubt on the relevance of variance as a measure of risk; they show the importance of skewness in decision making and, more precisely, they emphasize the attractiveness of the best outcome, an essential feature of optimal expectations theory. The ranking of outcomes, used in cumulative prospect theory, seems insufficient to characterize the way people distort beliefs. As by-products of this study, we illustrate that agents use heuristics when they choose numbers at random and have, in general, a poor opinion about the rationality of others.

**STAGES IN THE LIFE OF THE WEEKEND EFFECT:
EVIDENCE OF BEHAVIORAL BIASES?**

Dennis Olson
American University of Sharjah

Charles Mossman
University of Manitoba

Nan-Ting Chou
University of Louisville

This paper hypothesizes five stages in the life of stock market anomalies involving identification, exploitation, decline, reversal, and disappearance. Explanations for these stages are consistent with biases described in behavioral finance, such as anchoring, conservatism, underreaction, overconfidence and overreaction.

Data for seven U.S. stock indices for 1973 – May 2007 suggest that the weekend effect may have already gone through all the stages of its life. The negative weekend effect declined first for large stocks and now has mostly disappeared even for small stocks. The reverse weekend effect found in large stocks in the 1990s has similarly declined since 2000. Across all stock indexes, the weekend effect appears to be in the last stage of its life —disappearance.

JEL Classification: G, G1

Key Words: Anomalies, weekend effect, life stages, behavioral finance, heuristic-driven bias

THE ROLE OF MARKET DESIGN IN ALLEVIATING ATTENTION CONSTRAINTS

Bidisha Chakrabarty
Saint Louis University
chakrab@slu.edu

Pamela C. Moulton
Cornell University
pmoulton@cornell.edu

A large and growing body of literature documents that because attention is a scarce cognitive resource (Kahneman (1973)), financial market participants' attention constraints affect asset pricing. Studies that focus on the individual investor as the decision-maker show that correlation in asset return volatility (Peng, Bollerslev, and Xiong (2007)), under-reaction to long-term information (DellaVigna and Pollet (2009)), under-reaction to earnings announcements (Hirshleifer, Lim, and Teoh (2009)), and the speed of price adjustment (Peng (2005)) can all be explained in models that incorporate investor attention constraints.

Attention constraints can also affect asset liquidity through the actions of designated market makers (henceforth "DMMs"), who are contractually bound to provide liquidity for a defined set of securities. In recent years many financial markets, including limit order markets, have reintroduced DMMs for at least some securities. Corwin and Coughenour (2008) show that when some of a DMM's stocks are unusually active intraday, the liquidity of the DMM's other stocks worsens, suggesting a binding attention constraint. However, data limitations prevent Corwin and Coughenour from ruling out inventory risk management as an explanation of their findings. Both inventory risk management and attention constraints predict that when some stocks are active, other stocks handled by the same DMM will have worse liquidity.

In this paper we document that DMMs' attention constraints affect the liquidity of the stocks they handle even if they do not have or acquire a large inventory position. We also present the first evidence of how market design changes can ease the effects of DMMs' attention constraints. DMMs on the New York Stock Exchange (NYSE) are called specialists, and each individual specialist is responsible for a set of stocks called a panel.¹ For each stock on his panel, the specialist's responsibilities are to bring buyers and sellers together, provide liquidity, and serve as a point of accountability for the smooth functioning of the market. We find that when some of the stocks on a specialist's panel demand more of his attention, the liquidity of other stocks on the same panel worsens more than inventory risk management can explain, consistent with the specialist's attention constraint binding. The NYSE's Hybrid market introduction in 2006-2007 ushers in several changes, mostly related to increasing execution speed and automation. It gives the specialist additional electronic tools for managing his stocks (potentially easing the attention constraint); it leads to a reduction in the number of specialists and an increase in the average number of stocks each specialist handles (potentially worsening the attention constraint); and it makes it easier for public limit-order

¹ Throughout this paper our focus is on individual specialists, the people who manage panels of stocks, not the firms that employ them, since attention constraints primarily affect individual humans.

submitters including off-floor market makers to compete with the specialist on the NYSE (potentially mitigating the effects of the specialist's attention constraint as well as his inventory risk management).² Our hypothesis is that the net effect of the Hybrid market's increased speed and automation is to reduce the impact of the specialist's attention constraint on stock liquidity.

To examine the attention constraint, we identify earnings-announcement days as times that a specialist's attention is likely to be absorbed by a subset of his assigned stocks, those making earnings announcements. Earnings-announcement days are exogenously determined and are times of increased information in the market (Beaver (1968), Easley et al. (2008)). Because a specialist's likelihood of trading with informed traders increases on earnings announcement days, stocks that have earnings announcements are likely to demand more of the specialist's attention.

We first analyze the effect of earnings announcements on the liquidity of non-announcement stocks on each specialist's panel using a pooled time-series and cross-sectional analysis of daily data for the year surrounding the rollout of the Hybrid market, including controls for changes in public order submission strategies. We find that the liquidity of the non-announcement stocks handled by a specialist worsens (spreads widen) when some of the stocks on his panel have earnings announcements. Part of this liquidity deterioration is explained by the specialist's panel-wide inventory and his aggregate inventory change in stocks with earnings announcements, but about half of the spread widening effect remains after controlling for inventory effects. For example, when half the stocks on a panel have earnings announcements, the effective spread of non-announcement stocks on the same panel widens by about two basis points, or 18 percent of its average. After controlling for inventories, the attention effect from half the stocks on a panel having earnings announcements drops to about one basis point, or nine percent of its average. Furthermore, we find that the impact of earnings announcements on the liquidity of non-announcement stocks drops substantially after Hybrid, consistent with our hypothesis that the Hybrid market design changes alleviate the effects of the attention constraint.

We next examine how the Hybrid market mitigates the effect of a specialist's attention constraint. Do specialists find their constraint lowered (for example, because of their additional electronic tools), allowing them to participate more in the trading of non-announcement stocks on earnings announcement days? Or do off-floor market makers increase their participation in non-announcement stocks, making the specialist's attention constraint less consequential for the liquidity of non-announcement stocks? To answer these questions we analyze specialist and off-floor market maker participation in the trading of non-announcement stocks on days when other stocks on the same panel have earnings announcements, with controls for changes in public order submission strategies that occur under Hybrid. Over the full sample period, we find that the specialist participates less in the trading of non-announcement stocks when some of the stocks on his panel have earnings announcements, consistent with his attention constraint binding. Surprisingly, the specialist's participation in non-announcement stocks actually falls *more* on earnings-announcement days

² Off-floor market makers are not required to provide liquidity for a particular set of stocks; unlike the specialist, they can select which stocks to provide liquidity in at any time. Hybrid's faster execution eliminates many of the advantages specialists had over off-floor traders, gives off-floor traders more up-to-date information about the state of the market, and enables off-floor traders to act on this information more quickly. Taken together, these changes make it easier for off-floor market makers to compete with specialists on the NYSE.

after Hybrid, as the specialist increases his participation in stocks with earnings announcements. In contrast, off-floor market makers participate more in non-announcement stocks on earnings announcement days and even more so after Hybrid. The introduction of the NYSE's Hybrid market thus appears to alleviate the effect of the specialist's attention constraint on stock liquidity by facilitating greater participation from off-floor market makers, who are not limited to trading a particular set of stocks, rather than by directly reducing the specialist's attention constraint.

Our paper is the first to our knowledge to address the role of market design changes in mitigating the effects of attention constraints. Our findings suggest that exchanges can alleviate the effects of DMM attention constraints by facilitating the participation of other (non-dedicated) market makers. Attention constraints are an enduring human attribute, and the reintroduction of DMMs on many financial exchanges makes it important to find ways to alleviate attention constraints. After converting from human-intermediated to purely electronic markets over the past two decades, in recent years many electronic markets have been reintroducing DMMs to enhance the liquidity of their listed stocks. In recent testimony before the U.S. Congress, the Chairman of the U.S. Securities and Exchange Commission pointed out the potential advantages of human intervention over purely electronic trading systems, stating that "unlike pre-coded algorithms, people have the capacity, flexibility, and creativity to assess and respond to highly unusual events." Bessembinder, Hao, and Lemmon (2008) show that DMMs can enhance efficiency particularly when information asymmetries are important; in the time series, this is also likely to be when attention constraints bind most.

More generally, this paper provides the first test of DMM attention constraints that directly controls for inventory risk management as an alternative explanation for why the specialist trades less in some of his stocks when others are active. We find that attention constraints affect the liquidity of stocks handled by a single specialist beyond the inventory effects predicted by models such as Amihud and Mendelson (1980) and documented by Comerton-Forde et al. (2010).

References

- Amihud, Yakov, and Haim Mendelson, 1980, Dealership market: Market making with inventory, *Journal of Financial Economics* 8, 31–53.
- Beaver, William H., 1968, The information content of annual earnings announcements, *Journal of Accounting Research* (Supplement), 67-92.
- Bessembinder, Hendrik, Jia Hao, and Michael Lemmon, 2008, Why designate market makers? Affirmative obligations and market quality, Working paper.
- Comerton-Forde, Carole, Terrence Hendershott, Charles M. Jones, Pamela C. Moulton, and Mark S. Seasholes, 2010, Time variation in liquidity: The role of market maker inventories and revenues, *Journal of Finance* 65, 295-331.
- Corwin, Shane A., and Jay F. Coughenour, 2008, Limited attention and the allocation of effort in securities trading, *Journal of Finance* 63, 3031-3067.
- DellaVigna, Stefano, and Joshua Pollet, 2009, Investor inattention and Friday earnings announcements, *Journal of Finance* 64, 709-749.
- Easley, David, Robert Engle, Maureen O'Hara, and Liuren Wu, 2008, Time-varying arrival rates of informed and uninformed trades, *Journal of Financial Econometrics* 6,171-207.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

- Hirshleifer, David, Sonya Seongyeon Lim, and Siew Hong Teoh, 2009, Driven to distraction: Extraneous events and underreaction to earnings news, *Journal of Finance* 64, 2289-2325.
- Kahneman, Daniel, 1973, Attention and Effort, Prentice-Hall, Englewood Cliffs, NY.
- Peng, Lin, 2005, Learning with information capacity constraints, *Journal of Financial and Quantitative Analysis* 40, 307-329.
- Peng, Lin, Tim Bollerslev and Wei Xiong, 2007, Investor attention and time-varying comovements, *European Financial Management* 13, 394-422.

“CONVERTIBLE DEBT DEMOGRAPHICS”

Gina Nicolosi
Northern Illinois University
gnicolos@niu.edu

This study questions whether observable CEO characteristics which may be linked to overconfident tendencies are related to a previously unexamined corporate decision: the issuance of convertible debt. If overconfident CEOs overestimate future firm value and hence their firms’ share price, the resulting perceived belief or information asymmetry may induce the firm to shy away from other forms of external financing. Consequently, we examine whether (i) CEO characteristics impact the odds that firms will issue convertible debt; (ii) these same characteristics are linked to the size of an issue’s conversion premium, which may be a signal of managerial earnings expectations; and (iii) investors treat these characteristics as risk factors by pricing them into bond yields. Using a unique database that matches the demographics of almost 6,000 CEOs with their employment history across firms and time (1980 to 2008), we discover that several CEO characteristics do indeed significantly impact firms’ convertible debt activity (e.g., the leaders’ culture, age, education, marital status, and religious and political affiliations). Because many of these characteristics are directly observable, they may be more useful during employment decisions than previously-identified overconfidence proxies (i.e., Malmendier and Tate (2005, 2008)’s option exercise variables).

Excerpt from Table 3: Do characteristics affect propensity to issue convertible debt?

In this annual analysis, stepwise logistic regression is used to determine whether CEO characteristics are related to convertible debt issuance. The dependent variable equals one if firm f issued any convertible debt in the current fiscal year t . Predictor variables include both firm and CEO characteristics. All firm-years are considered regardless of whether or not the firm issued debt in the given year. Coefficients are presented as odds ratios. One (two) asterisk(s) indicate significance at the 5% (1%) level. Coefficients for control variables and Wald chi-square statistics for all predictor variables have been removed for brevity.

Variable	Model1	Model2	Model3b	Model4b	Model5b
$EDUC_IVY_i$		*1.396		*1.770	
$EDUC_TECH_i$		*0.708			
$CULTURE_i$		*2.262	*3.514		**4.649
$FOUNDER_i$		**1.738			
$REPUBLICAN_i$			**1.939		**2.290
$CHRISTIAN_i$			**0.404		**0.312
$MARRIED_i$		*1.261			
$N (obs)$	35,423	35,423	6,536	4,196	4,613

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

<i>N</i> (conv debt issues)	443	443	149	104	132
<i>Adjusted R</i> ²	0.0652	0.0733	0.0775	0.0661	0.0783

Excerpt from **Table 4: Do characteristics reflect higher stock price expectations?**

In this issue-level analysis, looking only at convertible debt d issued by firm f in year t , the conversion premium of the convertible debt issue is regressed (using ordinary least squares stepwise regression) against firm, bond and CEO predictor variables. One (two) asterisk(s) indicate significance at the 5% (1%) level. Coefficients for control variables and t -statistics for all predictor variables have been removed for brevity.

Variable	Model1	Model2	Model3b	Model4b	Model5b
<i>BIRTHYEAR</i> _{i}				*0.600	
<i>EDUC_TECH</i> _{i}		*-4.307	-6.527	** -15.375	
<i>CULTURE</i> _{i}			**46.481	**55.531	**43.540
<i>TENURE</i> _{i,f}			-0.260		
<i>DIVORCED</i> _{i}			9.833		10.671
<i>TOTALconfident</i> _{$i,t-1$}					-8.056
<i>N</i>	316	316	123	90	110
<i>Adjusted R</i> ²	0.2696	0.2730	0.5952	0.4887	0.2927

Excerpt from **Table 5: Are characteristics priced into convertible bond yields?**

In this issue-level analysis, looking only at convertible debt d issued by firm f in year t , the yield to maturity upon issue is regressed (using ordinary least squares stepwise regression) against firm, bond and CEO predictor variables. One (two) asterisk(s) indicate significance at the 5% (1%) level. Coefficients for control variables and t -statistics for all predictor variables have been removed for brevity.

Variable	Model1	Model2	Model3b	Model4b	Model5b
<i>BIRTHYEAR</i> _{i}				0.073	
<i>EDUC</i> _{i}			**0.667	**1.053	0.512
<i>EDUC_IVY</i> _{i}			**1.772	**2.841	
<i>EDUC_BUS</i> _{i}			-1.232	** -3.951	
<i>EDUC_TECH</i> _{i}		*-1.366			
<i>EDUC_LAW</i> _{i}					1.459

$TENURE_{i,f}$					*0.075
$MILITARY_i$		*1.219			
$DEMOCRAT_i$	2.114	**11.001	**12.039	**7.037	
$MARRIED_i$		*-1.779	*-3.884	** -2.154	
$DIVORCED_i$		*1.894			
$CHILDREN_i$				1.868	
$LONGHOLDER_i$			** -2.321		
$HOLDER67_i$				** -2.051	
$TOTALconfident_{i,t-1}$					*1.927
N	332	332	128	92	113
$Adjusted R^2$	0.3186	0.3592	0.6884	0.7836	0.5745

Conclusion

While Malmendier and Tate (2005, 2008) provide intriguing methods of identifying executives who engage in activities related to overconfidence (i.e., overinvestment), the usefulness of their variables is limited by the older time period examined (i.e., 1980 to 1994) and by the fact that the option exercise data required to recognize potentially overconfident leaders is not accessible to ordinary investors. In contrast, in this study we examine the effects of publicly available demographic markers on different optimistic behaviors over a longer and more recent time period (i.e., 1980 to 2008). After examining firms' convertible debt activities, we discover that several observable individual characteristics may indeed reveal executives' firm-related expectations. Starting with the premise that both higher convertible debt reliance and conversion premiums signal elevated managerial beliefs regarding firm value (or lower estimates of firm risk), we discover that CEOs who are younger, Republican or have Asian or Ivy League backgrounds (are Christian or more highly educated) might generate more optimistic (pessimistic) firm forecasts. However, looking at bond yields upon issuance, it appears that the investing public considers executive age, religion, Democratic Party affiliation and unmarried status to be relevant risk factors. Overall, several personal characteristics of CEOs do possess significant predictive power in terms of explaining firms' convertible bond activity.

Summary References

- Malmendier, Ulrike, and Geoffrey Tate, 2005, CEO Overconfidence and Corporate Investment, Journal of Finance 60, 2661-2700.
- Malmendier, Ulrike, and Geoffrey Tate, 2008, Who Makes Acquisitions? CEO Overconfidence and the Market's Reaction, Journal of Financial Economics 89, 20-43.

*Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and
Economics, September 15-17, 2010, Chicago, Illinois*

**MARKET FAILURE IN U.S. MICROFINANCE:
HOW BEHAVIORAL FINANCE AND ECONOMICS INFORM UNDERSTANDING**

Caroline E.W. Glackin, PhD
Shepherd University
CGlackin@shepherd.edu

Prior research by this author (Glackin 2002) examined the factors contributing a market failure in U.S. microfinance. It identified the gap between microloan capital availability and loan disbursements and provided explanatory insights into the sources of this gap. Specifically, it hypothesized that the full range of costs of borrowing are seriously underestimated and shortfalls in demand may be heavily influenced by financial and other costs. While much previous research was conducted on the benefits and potential, as well as the program costs, of U.S. microenterprise development, relatively little research explored the customer perspective. This research yielded a taxonomy of the barriers, costs and constraints encountered by microloan customers in the United States. The framework for understanding the customer perspective suggested program and policy options to bridge the gap by effectively reducing borrower costs.

This paper revisits the earlier research through the lenses of behavioral finance and economics to create more complete and robust understanding of the market failure and means to address through program and policy options. Behavioral phenomena constitute what the prior research identified as significant issues in the delivery and uptake of loans.

Microlending³ is an approach to poverty alleviation and community development adopted in the United States over the past decades. Initially, practitioners and policy makers presumed that the lack of access to capital was the primary impediment to the capacity for the self-employed reaching self-sufficiency. Much previous research concentrated on the delivery system -- program design, program costs, outputs, and impact. Yet, by the early part of this century, there was a supply of capital chasing low-income entrepreneurs in many areas of the country. Early shortages of loan pool capital were generally eliminated with deployment at 57 percent in FY2000 (Walker and Blair 2002). This market failure was the impetus of research to understand the costs, barriers and constraints for potential microloan borrowers.

U.S. microenterprise programs are operated primarily by not-for-profit entities which often provide training and counseling. As microenterprise programs evolved to focus on increasing scale and sustainability, they added services to meet the needs of targeted populations. In the 1980s and 1990s the emphasis was on credit, groups, women, microbusinesses, and graduation while more recently a flexible range of services, convenience, continuity, and reliability rose to the forefront (Morduch and Rutherford 2003). A more recent view (Morduch and Rutherford 2003) of clients states, "Now, typical microfinance clients might be better understood as men and women from poor households seeking a wide range of savings and loan services to support a diverse set of consumption needs and investment opportunities."

³ Defined as loans of up to \$35,000 to companies with 5 employees or fewer.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

The original research includes the development of an analytical framework for the consumption costs and factors for U.S. microloan customers based upon utility theory and economic benefits and costs. Loan customers were assumed to make “rational” economic choices given the constraints facing them. Through the use of in-depth case studies of two U.S. microloan programs, the analytical framework was tested and a more complete understanding of costs, barriers and constraints emerged. A model for estimating financial and opportunity costs for U.S. microloan customers was developed and program and policy implications identified.

The case study research consisted of multiple parts to estimate microloan customer costs, barriers and constraints. Managers of the two selected programs completed a written questionnaire. Then, the research included information session observation, interviews with staff and key informants, and customer surveys and interviews, and leaver interviews. A document review completed the research. A mixture of content analysis and statistical analysis was applied to the data. This research included the collection of significant behavioral data, particularly through the interviews, but emphasized the financial and the opportunity costs of borrowing.

The present research is a second look at the original results in light of literature in behavioral economics and finance. The author reviewed areas of theory and analysis in the literature to assess how they might inform the findings and recommendations of her earlier work.

It is the consumption costs of services for social welfare that are at the core of the analysis. While microloans are not public goods, they act like government-provided goods and services in many ways and carry their characteristics. Services may not be consumable as available or may be too costly, thereby pricing people out of the consumption. These costs include such factors as time, effort, money, and psychological and physical burdens. In essence, goods are effectively rationed at the same time as there is an excess supply.

The costs for U.S. customers include financial, opportunity, and psychological and are compounded by barriers and constraints. Financial costs can include: application, training, technical assistance and closing costs, as well as interest, late fees, penalties, service charges, and required transportation and childcare. Opportunity costs encompass training and technical assistance time, travel, elapsed time, pledged collateral, and social welfare policy costs. Many of these costs are essentially “sunk costs”. Some of these costs are transparent, but many are opaque and emerge during the borrowing process. In addition, borrowers and leavers reported the following factors: risk aversion, loss of privacy, emotional upheaval, discrimination, regulatory and legal barriers and hurdles, problem credit histories, cost shifting, lack of collateral, information gaps, trust issues, and social capital, and religious practices among others.

Behavioral economics and finance inform research into U.S. microfinance market failure. Lenders use opaque framing with prospective customers and they are engaged in a “game of opaque fees” (Thaler and Bernartzi 2004). Potential borrowers are not calculating the economic costs of capital, but rely upon heuristics and non-financial criteria in decision-making. Many of the self-reported borrowing costs are discussed in behavioral economics literature including loss aversion (Tversky and Kahneman 1991), mental accounting (Heath 1995; Heath and Soll 1996; Prelec and Loewenstein 1998), endowment effects, framing

(Thaler and Bernartzi 2004; Thaler and Sunstein 2003), and attitudes toward debt (Godwin 1997). Research on the decision making of the poor (Hall 2008), decision making under risk (Kahneman and Tversky 1979), psychological cost of credit (Brown, Taylor, and Price 2005), paternalism (Camerer et al. 2003) and time discounting (Frederick, Loewenstein, and O'Donoghue 2002; Gourville 1998; Leclerc, Schmidt, and Dube 1995) add considerable value to the discussion. Policy implications include reframing the conversations about microloans and using an understanding of behavioral factors to reduce the costs of consumption and increase demand. This paper suggests new analysis of U.S. microfinance at program and customer levels to increase understanding and effectiveness.

References

- Brown, Sarah, Karl Taylor, and Stephen Wheatley Price. 2005. Debt and distress: Evaluating the psychological cost of credit. Journal of Economic Psychology:642-663.
- Camerer, Colin F., Simon Issacharoff, George Loewenstein, T. O'Donoghue, and Matthew Rabin. 2003. Regulation for conservatives: Behavioral economics and the case for 'asymmetric paternalism'. University of Pennsylvania Law Review 151:1211-54.
- Frederick, Shane, George Loewenstein, and T. O'Donoghue. 2002. Time discounting and time preference: A critical review. Journal of Economic Literature 40 (2):351-401.
- Glackin, Caroline Elizabeth Wiedenman. 2002. What does it take to borrow? A framework for analysis. Journal of Microfinance 4 (1):115-135.
- Godwin, D. 1997. Dynamics of households' income debt and attitudes toward credit. Journal of Consumer Affairs 31:303-325.
- Gourville, J. T. 1998. Pennies-a-day: The effect of temporal re-framing on transaction evaluation. Journal of Consumer Research 24:395-408.
- Hall, Crystal Celestine. 2008. Decisions under poverty: A behavioral perspective on the decision making of the poor. Doctoral Dissertation, Psychology, Princeton University, Princeton, NJ.
- Heath, C. . 1995. Escalation and de-escalation of commitment in response to sunk costs: The role of budgeting in mental accounting. Organizational Behavior and Human Decision Processes 62:38-54.
- Heath, C., and J. B. Soll. 1996. Mental accounting and consumer decisions. Journal of Consumer Research 23:40-52.
- Kahneman, D., and A. Tversky. 1979. Prospect theory: An analysis of decision under risk. Econometrica 47:263-291.
- Leclerc, F., B. Schmidt, and L. Dube. 1995. Decision making and waiting time: Is time like money? Journal of Consumer Research 22:110-119.
- Morduch, Jonathan, and S. Rutherford. 2003. Microfinance: Analytical issues for India. In India's financial sector: Issues, challenges and policy options, edited by P. Basu. Oxford: Oxford University Press.
- Prelec, D., and G. Loewenstein. 1998. The red and the black: mental accounting of savings and debt. Marketing Science 17:4-28.
- Thaler, Richard, and S. Bernartzi. 2004. Save more tomorrow: Using behavioral economics to increase employee saving. Journal of Political Economy 112 (1):164-87.
- Thaler, Richard H., and Cass R. Sunstein. 2003. Libertarian paternalism. American Economic Review 93:175-179.
- Tversky, A., and D. Kahneman. 1991. Loss aversion in riskless choice: A reference dependent model. Quarterly Journal of Economics 106:1039-1061.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Walker, Britton, and Amy Kays Blair, eds. 2002. 2002 Directory of U.S. Microenterprise Programs. Washington, DC: The Aspen Institute.

THE DEMOGRAPHICS OF NON-PARTICIPATION IN STOCK MARKETS

**Ann Marie Hibbert
West Virginia University**

**Edward R. Lawrence
Florida International University**

**Arun J. Prakash
Florida International University**

In this paper we measure the impact of demographic factors on the decision to not participate in the stock market. Using data from the Federal Reserve's Survey of Consumer Finances (SCF) and a survey of 1,368 finance professors at universities across the United States, we find that when individuals have advanced knowledge of finance, they are significantly more likely to invest in equities. We also find that when investors are highly educated in finance, the decision to not hold stocks is less related to demographic factors and is not motivated by their short-term expectations of the market or the outcome of their recent investments.

JEL category: G11, D14

Keywords: non-participation in stock markets, household portfolio, behavioral finance, financial education

STUDENTS AND RETIREMENT SAVING PREDICTORS

Chris Kalin
Wachovia Bank
chris.kalin@wachovia.com

Oliver Schnusenberg
The University of North Florida
oschnuse@unf.edu

The purpose of this study is to investigate the savings behavior of American students via a survey instrument. This study contributes to the existing literature in several ways. First, no study to date has investigated the factors affecting the savings behavior of American college students. From an educational viewpoint, such an investigation is important because it could indicate a need for further education in the area of personal finance beginning at the High School level. Second, we develop a model that identifies relevant predictors for the savings behavior among college students. This could reveal new and exciting areas for future research. Furthermore, an understanding of relevant predictors might also result in focusing financial education on certain segments of the population to increase the savings rate. Lusardi (2008) finds that offering financial education increases both financial and total net worth sharply for families with low education. Moreover, the author also finds that retirement seminars increase total wealth for both high and low education families.

For most Americans, saving for retirement does not become an important objective until they are in their 50s, at which time it may be too late to accumulate a significant amount of wealth. (Hennessy, 2006; Hrungr, 2002) Indeed, as pointed out by Mitchell and Utkus (2004) surveys repeatedly find that fewer than 40 percent of US workers have calculated how much they will need during retirement, 30 percent have not saved anything for retirement, and only 20 percent feel very confident about having enough money to live comfortably in retirement (EBRI 2003).

Over the past century, Americans have had significant increases in personal income yet personal savings has decreased. We examine college students' habits and beliefs concerning saving for retirement. To our knowledge, no study has examined retirement savings among Americans in this age group. We try to determine whether a student's retirement savings beliefs and habits can be predicted.

Using a unique survey, five indexes are constructed to assess students' risk-aversion level, financial background, general savings habits, financial literacy, and attitudes toward saving. This index is used to predict a similarly constructed index of retirement savings behavior. A total of 163 students at an AACSB-accredited institution in Florida were recruited for participation in the survey. Students volunteered to take part in a study of "Retirement Savings Predictors in College Students." In exchange for their participation, students received extra credit toward their course grade in the introductory undergraduate corporate finance course. 3 students provided nonsensical answers and were eliminated from the analysis, leaving a final sample of 160 students. Informed consent was obtained through electronic signature from all participants. All participants were treated in accordance with the Ethical Principles of Psychologists and Code of Conduct.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

In order to investigate the direct relationship between our five predictor variables (risk aversion, financial background, savings beliefs, financial literacy, and general savings habits) and the dependent variable (retirement savings habits and beliefs), we conduct regressions for the entire sample and for various subsamples based on the demographic variables. The regression results are presented in Table 5.

We find that financial literacy and general savings habits are positive and significant predictors of retirement savings habits. This makes sense, as more financially literate students and students who are already saving understand the importance of saving for retirement. Interestingly, the less risk-averse a student is, the more he or she will save for retirement, on average. Given that our sample consists of relatively young students, they may be investing primarily in equities when saving for retirement, which could explain their lack of risk aversion.

For female students, only general savings habits are positively associated with greater retirement savings. For male students, risk aversion, financial literacy, and general savings habits are significantly associated with greater retirement savings. It is interesting to note that the regression results for students older than 25 and 25 or younger mirror those for female students and male students, respectively.

For students with a GPA greater than 3.0, risk aversion, financial literacy, and general savings habits result in higher retirement savings or at least the belief that saving for retirement is important. For students with a lower GPA, the results are almost identical, but risk aversion apparently does not affect retirement savings.

For finance majors, less risk aversion and general savings habits result in greater saving for retirement. For non-finance majors, financial literacy and general savings habits have the same effect. For finance majors, maybe this implies a correct understanding or interpretation of the risk/return relationship.

For students with more than \$2,500 in debt, financial literacy and general savings habits are positively associated with greater retirement savings. However, for students with less than \$2,500 in debt, less risk aversion and general savings habits exhibit a positive relationship. Within the group of 63 students with little or no debt, apparently less risk aversion has a positive impact on retirement savings. It stands to reason that these students are probably very risk averse (given that they have no debt), so that even a slight decrease in risk aversion has a positive impact on retirement savings.

The findings also indicate that less risk aversion, greater financial literacy, and more pronounced general savings habits are positively related to retirement savings for politically conservative students, while only general savings habits increase retirement savings for students with other political beliefs. For the conservative students, perhaps the interpretation is similar to the no debt students, in that they may be more risk averse than other students.

Yet another interesting finding indicates that students whose employers offer 401(k) plans demonstrate a significant relationship between savings beliefs, financial literacy, and general savings habits and retirement savings, while less risk aversion and general savings habits are significant for those whose employers do not offer a retirement savings plan.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Perhaps the more financially literate employees understand the value of saving for retirement better and, given the chance to save by their employer, take more advantage of the opportunity.

We also document several interesting interactions. Gender and age appear to have significant interactions with several variables. First, older males apparently especially value savings in general. Second, single males have a better financial background. Males with children and young males are also especially financially literate. Moreover, young, non-finance majors with a conservative political orientation have a better financial background. However, older students with children are more financially literate (perhaps by necessity).

The findings for finance majors are also interesting in terms of their interaction. Finance majors with a GPA greater than 3.0 apparently understand the importance of retirement savings. Moreover, finance majors with more than \$2,500 in debt and finance majors with siblings are less risk averse. This could simply indicate that finance majors understand financial relationships and, consequently, they realize that leveraging has risk associated with it.

There are three other interesting relationships in Table 6. First, married and politically conservative students exhibit better retirement savings habits. Second, students with children whose employers offer a 401(k) are more financially literate, perhaps by necessity of constraints naturally imposed by having children. Third, students earning more than \$30,000 a year with no debt believe that saving is very important.

In conclusion, further research needs to be conducted. An interesting extension of the results presented here would be to investigate the relationships following the global financial crisis to see its impact on savings behavior in general and savings beliefs in particular. The results presented here imply that education plays an important role in actual retirement savings behavior. Most students are not educated in this area, even if they are finance majors. One approach to increase retirement savings may be to educate students about the benefits of retirement savings, the importance of good general savings habits, and the possible implications to excessive risk taking on the ultimate value of their retirement account.

References

- Employee Benefit Research Institute (EBRI), 2003, Retirement Confidence Survey: A Summary of Results. Located at: <http://www.ebri.org/surveys/rcs/2003/>.
- Hennessey, S.M., 2006, A Practical Approach to Retirement Planning, FMI Journal 15, 26-30.
- Hrung, W.B., 2002, Income Uncertainty and IRAs, International Tax and Public Finance 9, 591-599.
- Lusardi, A., 2008, Saving and the Effectiveness of Financial Education, Pension Research Council WP2003-14. Available at SSRN: <http://ssrn.com/abstract=476022> or doi:10.2139/ssrn.476022.

PERSONALITY

Robert B. Durand*
Rick Newby
Leila Peggs
Michelle Siekierka

We conduct a clinical study of the investment behaviour of 115 subjects. Using Norman's Big 5, *Preference for Innovation* and *Risk-Taking Propensity* (from Jackson's Personality Inventory) and Bem's sex-role inventory we confirm the argument presented in Durand, Newby and Sanghani (2008) that personality is related to investment choices and outcomes. We extend Durand, Newby and Sanghani (2008) by demonstrating that investors' reliance on two heuristics used to model market movements – the availability heuristic and the disposition effect – is associated with their personality traits.

JEL classification: G12

Keywords: Behavioural Finance, Norman's 'Big Five', Psychological Gender.

The authors are from the University of Western Australia, M250, 35 Stirling Highway, Crawley, Western Australia, 6009. We like to thank seminar participants at the Asian FMA (Singapore, July 2010) and Monash University for their helpful comments. We are also grateful to Kalok Chan for his constructive comments. We are also grateful for Stephen Sheely's assistance in developing the trading platform used for our experiment. Leila Peggs and Michelle Siekierka gratefully acknowledge the financial support of the University of Western Australia Business School Honours Research Scholarship.

* Corresponding author: Phone + 61 8 6488 3764. Fax + 61 8 6488 1047.

E-mail: Robert.Durand@uwa.edu.au

Web: <http://web.biz.uwa.edu.au/staff/rdurand/default.html>

**BUILDING A BETTER MOUSETRAP:
THE PSYCHOLOGY OF DOLLAR COST AVERAGING**

Lee Dunham
Creighton University

Geoff C. Friesen
University of Nebraska-Leighton

This paper presents a simple, intuitive investment strategy that improves upon dollar-cost-averaging (DCA) for investors making regular contributions to investment portfolios including 401(k), 403(b) or IRAs. Dollar-cost averaging has long been advocated as an effective strategy for investors with a lump sum to invest, and also for investors with recurring cash flows that are invested in DC plans. However, Constantinides (1979) shows that in a rational expectations framework the use of dollar-cost-averaging as a vehicle for investing a lump sum is suboptimal. The optimal strategy is generally non-sequential, meaning it immediately allocates the entire lump sum to the optimal portfolio. Not only is dollar-cost-averaging dominated by the optimal strategy, but it can also be shown that there exists a sequential (i.e. gradual) strategy which dominates dollar-cost-averaging. Unlike dollar-cost-averaging, which never alters the planned investment in the face of new information, the optimal sequential strategy will incorporate information that becomes available over time. Samuelson (1994) suggests that for fiduciary trustees, use of sub-optimal dollar-cost-averaging is a blunder if not a criminal act.

While dollar-cost-averaging may be suboptimal for a rational investor, Statman (1994) offers three behavioral rationales for its use. First, a mathematical property of dollar-cost-averaging is that over any arbitrary investment period, the average price *paid* is less than the average price. Though this property is unrelated to the issue of optimality, it makes dollar-cost-averaging a compelling strategy for many investors, given the way they frame sequential decisions. Second, it is well established that the pain of regret exceeds the joy of pride for most humans. A 30% decline in stocks causes much more pain than a 30% increase causes joy, and if the pain of regret is sufficiently acute, it may prevent some investors from ever investing in stocks. Kahneman and Tversky (1982) note a positive correlation between regret and the level of responsibility for a choice. Following a rule such as dollar-cost-averaging reduces most investors' sense of personal responsibility, which reduces the level of regret for bad outcomes and enables them to invest in riskier assets. Third, rules such as dollar-cost-averaging serve to combat lapses in self control that may cause investors to abandon their investment plans at the worst possible time. Thus, dollar-cost-averaging may be inferior to the *optimal* strategy, but is superior to the strategy many investors are *most likely* to adopt as a result of their human nature.

The criticisms of dollar-cost-averaging raise a valid point: dollar-cost-averaging ignores new information, and thus will generally be inferior to the optimal sequential investment strategy. The purpose of this paper is to present a practical investment strategy that is closer than dollar-cost-averaging to the optimal sequential strategy, yet retains the "hands off" attributes of dollar-cost-averaging that are appealing to behavioral investors. Our simple, intuitive rule-based

strategy “removes personal responsibility” and the sense of regret that such heightened responsibility causes investors in down markets. To improve upon DCA, our strategy takes account of new information, which DCA does not. Our rule does so in the simplest possible way, by recognizing that a positive return makes stocks more expensive, and a negative return makes them cheaper. Our investment strategy, which we call enhanced dollar-cost-averaging (EDCA), follows traditional DCA very closely but allows for a slight change to take advantage of new information. The EDCA strategy invests a fixed additional amount after a down month, and reduces the investment by a fixed amount after an up month. Specifically, it invests an additional \$Y in month $t+1$ if the return in month t is negative, and invest \$Y less in month $t+1$ if the return in month t is positive. We also present results for an enhanced EDCA model that adjusts the additional or reduction in the monthly contribution that is conditional upon the size of the lagged monthly return.

Our simulation results show that the EDCA strategy reliably outperforms the DCA strategy. We document that EDCA nearly always delivers higher dollar-weighted returns, and delivers greater terminal wealth well over 50% of the time for reasonable values of the risk premium. Furthermore, the variation of our EDCA model that allows for the additional monthly contribution to be conditional upon the size of the lagged return leads to an even greater enhancement in return over traditional DCA. EDCA is especially valuable in bear markets, but will consistently underperform the DCA in extreme bull markets, when the cash-drag effect is most pronounced. Historical back-testing on U.S. equity indexes and mutual funds indicates that investor dollar-weighted returns can be enhanced by between 30 and 70 basis points per year simply by switching from DCA to EDCA. When back-tested using monthly returns from 2000-2009, EDCA provides almost no benefit for money market or taxable fixed income funds, but enhances dollar-weighted returns for 47 out of 48 equity funds.

REFERENCES

- Constantinides, George M., 1979, “A Note on the Suboptimality of Dollar-Cost Averaging as an Investment Policy,” *Journal of Financial and Quantitative Analysis*, 14, 443-450.
- Friesen, Geoff, and Sapp, Travis, 2007, “Mutual Fund Flows and Investor Returns: An Empirical Examination of Fund Investor Timing Ability,” *Journal of Banking and Finance*, 31, 2796-2816.
- Kahneman, D., Tversky, A. 1979, “Prospect Theory: An Analysis of Decisions Under Risk,” *Econometrica*, 47, 313-327.
- Samuelson, Paul, 1994, “The Long-Term Case for Equities” *Journal of Portfolio Management*, 21, 15-24.
- Statman, Meir, 1994, “A Behavioral Framework for Dollar-Cost Averaging,” *Journal of Portfolio Management*, 22, 70-78.

CAN REAL OPTIONS UNBIAS ACQUISITION DECISIONS?

Joris Kil

Erasmus Research Institute of Management Rotterdam

kil@ese.eur.nl

This paper suggests the use of real options to value and structure acquisition decisions in order to mitigate common judgment biases in company valuations and execution of the bidding strategy. A framework is proposed that matches common biases with corporate decisions under uncertainty based on their moment of exercising; Type 1 decisions are acquisition growth opportunities and appear procyclical while Type 2 decisions relate to distressed acquisitions and divestment decisions and occur countercyclical. Procyclical type one decisions are exercised early due to overconfidence in acquisition outcomes, optimism infused by the market trend causing overvaluation and an illusion of control understating volatility. Furthermore, the search for confirmation leads to disregarding potential drawbacks of the deal, while over-commitment coupled with sunk cost can act as an extra stimulus for continuation of a bad deal. In contrast, countercyclical type two decisions suffer from the reluctance to acknowledge a certain loss leading to late exits. Also past firm values can serve as an anchor which, combined with insufficient adjustment, leads to rejecting bids (either hostile or friendly) as they are deemed to low. The perception of failure with the occurrence of losses or lower growth perspectives in a down cycle induces higher risk seeking behavior causing late exercising which leads to further accumulation of losses.

Adopting a real option view allows to analyze to what extent real options can help to unbiased and discipline management in their timing of type 1 and type 2 decisions. I conclude that use of real options provides a disciplinary toolkit that corrects for timing bias by providing objective exercise points, leads to accurate value appraisal of decisions under uncertainty (counters overvaluation of opportunities under uncertainty) and correctly considers volatility in the decision environment.

Despite their benefits, real options remain sensitive to irrational infection warranting the use of real options to justify a preferred path. Option overvaluation and competitor neglect can lead to option mispricing causing continued suboptimal timing decisions.

R&D INTENSITY, CAPITAL STRUCTURE AND MANAGERIAL BEHAVIOR

Mohamed M. Rahoui
Old Dominion University
MRahoui@odu.edu

Ajay Kongera
Old Dominion University
AKongera@odu.edu

The behavior of managers is of concern in any corporate form of organization. The behavior of managers may not be in congruence with the goals or expectation of its owners. This is called the agency problem. We incorporate elements of agency theory and of prospect theory and come with testable hypotheses on what our expectations are regarding managerial decision making and expected consequences of such decision making.

The focus here is to look at how managers' decisions are affected the amount of long term debt they hold in their capital structure. Most of the literature about managers taking risk is based on the study of incentives they have been offered (Devers, McNamara, Wiseman and Arrfelt, 2008.)

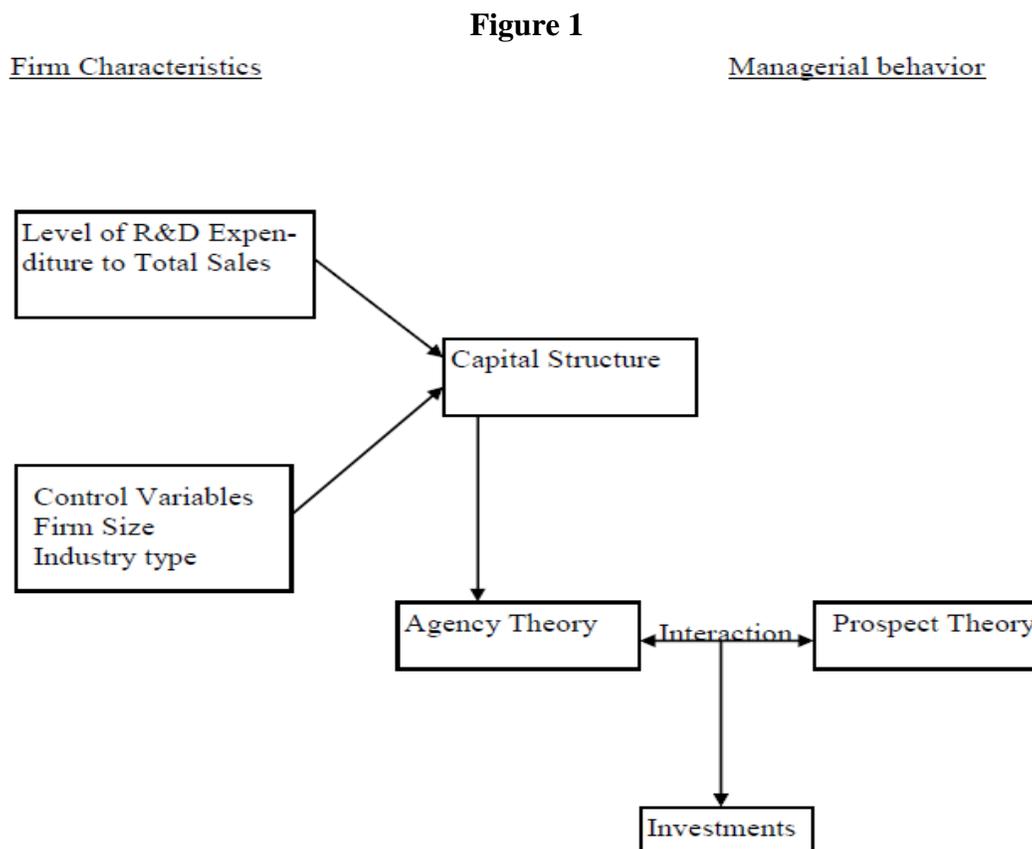
We develop hypotheses based on tradeoff theory of Barnea, Haugen and Senbet (1981), agency theory of Jensen and Meckling (1976) and prospect theory of Kahneman and Tversky (1979) and Thaler and Johnson (1990.) The basis for our hypotheses starts with the examination of R&D characteristics of a firm. If a firm has high R&D intensity we assume that such a firm has lower access to debt. We assume high R&D intensity would entail the firm to have greater intangible assets as opposed to tangible assets. Greater R&D intensity should therefore force a firm to rely less on debt financing (Balakrishnan and Fox, 1993.) This is the result is found to be true in the regression we run manufacturing firms those that have SIC codes 2000 to 3999.

Next we focus on the kinds of investments a manager would undertake given different debt ratios. If a firm's R&D intensity is low the firm would operate under tradeoff theory and we should not observe any relationship between debt ratio and a proxy of risky investments. We use price volatility as a proxy for risky investments. If however the R&D intensity of a firm is high, we theorize that the firm would have low debt ratio and would likely take some negative net present value investments due to the effect of agency theory's prediction of lower monitoring of such firms. Therefore, we theorize firms with high R&D intensity would have an inverse relationship with debt ratio and the proxy for riskiness.

Our final focus is on profitability of the firm. Again with firms with low R&D intensity levels we do not expect any relationship between debt ratio and profitability based on tradeoff theory. However with high R&D intense firms we expect a positive relationship with debt and profitability. We expect this relationship as it follows from our previous expectation that high R&D firms having low debt ratios are monitored poorly because of the agency problem. This then leads to lower profitability following the dynamic point of view of prospect theory, where

we expect a firm that having taken a risky investment has the higher probability of loss, and loss aversion has the manager making more such risky investments in a vicious cycle. Profitability variables we use for this are return on assets of the firm and annual capital market returns.

The above stylized facts are illustrated in the following figure 1.



Preliminary results show an inverse relationship between the level of leverage of the firm and its R&D intensity level. The results validate the well establish hypothesis in the financial literature that the higher the level of intangible assets of the firm, the lower should be its capital structure debt.

More importantly, after controlling for the level of R&D intensity and employing an OLS regression, we were able to demonstrate that managers of firms with low leverage ratio will engage in more risky investments than firms with high leverage ratio after controlling for the level of R&D intensity.

In addition our work seems to suggest the existence of a cut off level beyond which the level of R&D intensity will have a positive influence on the profitability of the firm. This is similar in retrospect to the positive effects of the learning curve and the economy of scale which become apparent after at time $t > 0$. While at time $t = 0$, the firm may experience a certain level of losses do

to the large amount of capital invested at time zero. This later suggestion is in need for additional investigation and testing.

We further extend our work to advance theory on how this capital structure might influence its foreign mode of entry. The end result is two theoretical propositions which related the firm's capital structure and managerial behavior to the internationalization of firm behavior. (1) The higher the level of intangible assets of the firm, the more loss averse managers are and by consequence the more they engage in risky international activities. (2) Firms with high level of intangible assets experience a high rate of domestic and international joint venture failure.

References

- Balakrishnan, Srinivasan and Isaac Fox, 1993, Asset specificity, firm heterogeneity and capital structure, Strategic Management Journal 14, 3-16.
- Barnea, Amir, Robert A. Haugen, and Lemma W. Senbet, 1981, Market imperfections, agency problems, and capital structure: A review, Financial Management 10, 7-22.
- Devers, Cynthia E., Gerry McNamara, Robert M. Wiseman, and Mathias Arrfelt, 2008, Moving Closer to the Action: Examining compensation design effects on firm risk, Organization Science 19, 548-566.
- Jensen, Michael C., and William H. Meckling, 1976, Theory of the firm: Managerial behavior, agency costs and ownership structure, Journal of Financial Economics 3, 305-360.
- Kahneman, Daniel and Amos Tversky, 1979, An analysis of decision under risk, Econometrica 47, 263-292.
- Thaler, Richard H. and Eric J. Johnson, 1990, Gambling with the house money and trying to break even: The effects of prior outcomes on risky choice, Management Science 36, 643-660.

CONTEXTUAL AMBIGUITY: EXPERIMENT AND EVIDENCE

Safa Gritli
Yokohama National University
safagritli@hotmail.com

Two branches of economics address the problem of decision making under uncertainty. The economics of uncertainty, which tries to provide the best decision making, provided the decision makers' (DMs) information limitation and the economics of information, which requires the DM to endeavor to hold the new information before any decision is taken. The current paper tackles the problem of decision making under ambiguity from these two perspectives of economies, uncertainty and or of information. Market participants (MPs) are in the market aware of their information limitation and confronted with a bewildering choice as to whether or not to hold the new information before taking any decision.

Behavioral finance provides numerous experimental implications on the problem of decision making under uncertainty. It is the leading seminal work of Ellsberg (1961) that led to an extensive interest on the ambiguity theory. Ellsberg (1961) proved that people prefer to bet on the known rather than the unknown probabilities. Ellsberg's two-color urn example involves two urns each containing red and black balls. One containing 50 red and 50 black while the other one 100 balls in an unknown proportion. A ball is drawn from one of these urns and MPs are rewarded a \$100 should their bet on the blind draw from one urn be correct. DMs fearful of the unknown prefer to bet on the first urn rather than the second one. Savage's sure-thing principle is violated and Ellsberg (1961)'s choice of actions showed to be incompatible with the expected utility (EU) theory. This result has been proven in several experiments (Keren and Wagenaar (1987); Keren (1991); Fox and Tversky (1995); Schoemaker (1992)) as well as several explanatory behavioral experiments (Ford and Ghose (1998); Tversky and Kahneman (1992); Rode, Cosmides, Hell and Tooby (1999); Redelmeir and Tversky (1992) and Liu and Colman (2009)). For instance, Redelmeir and Tversky (1992) and Liu and Colman (2009) corroborate findings on the repetition effects in decision making under uncertainty. They show that ambiguity aversion reduces in repeated games in comparison with single games. DeKay and Kim (2005) proved the same effect also when subjects are motivated by monetary rewards. In that respect, Tversky and Kahneman (1992) stipulate that prospect theory is behind the rejection of single gambles. People are more sensitive to losses than they are to gains. Heath and Tversky (1991) vindicate the violation of the EU theory with the competence hypothesis. Their theory argues that DMs prefer to bet on vague beliefs when they feel more knowledgeable about the event and on chances when they do not. Fox and Tversky (1995) argued that the competence hypothesis only affects decisions to the extent that the DM is aware of it. They justify their argument with the comparative ignorance hypothesis. Fox and Weber (2002) corroborate the comparative ignorance hypothesis introduced by Fox and Tversky (1995). They prove that the willingness to act is influenced by the relative level of contrasting states of knowledge. All these experiments agree on the fact that decisions are influenced by the DMs' cognitive context.

In the following paper, we conduct four studies on a group of 100 students from the Yokohama National University, Japan. The studies conducted are twofold. The first group of studies corroborates previous findings on competence effect and comparative ignorance hypothesis. Thus, MPs are loss averse and prefer to bet on what seems to them less ambiguous prospects or prospects about which they are able to learn the true probabilities. The second group of studies is built in the spirit of Ellsberg (1961). The idea is beyond a reward on a correct guessing of the drawn color from a risky and an ambiguous urn. Rather, MPs choose between betting on the overall composition of an ambiguous urn and collecting a sure income. Besides the novelty of the idea of betting on the overall composition of the urn, we introduce the parameter time to the game. Thus, the ambiguous urn contains an unknown number of N -two colored balls, black and red, in an unknown proportion. The MPs are asked to guess the overall composition of the urn. The game is played for a period of time T , during which MPs are asked to deliver one and only one bet on the overall composition of the urn, from time $t = 0$ until time $t = T-1$. At each node of time, the MPs are allowed to draw a ball from the urn and return it back minding a constant payment. MPs can submit their bet at any time between time 0 and $T-1$. Under this setting, we imply the contextual ambiguity. That is, when MPs evaluate the ambiguity level according to the initial description of the game. In fact, we stipulate that the ambiguity level depends on the number of balls included in the urn as well as the period of the game and define three types of economies under this setting, respectively, the high ambiguity long-lived information economy the high ambiguity short-lived information economy and the low ambiguity economy .

The purpose of these studies is to explore the decision making of the MPs in economies about which they are able to learn, and in which the learning speed depends on the initial characteristics of the economy. Our proposition is that the behavior of the DMs is different under the three types of economies. Aware of the contextual ambiguity, MPs time their investment accordingly. We propose that people's confidence fortifies under the first and third economy, and undermines under the second type of economy. MPs feel more competent in the first and the third economy compared with the second one because the learning process in the former is faster than the latter. The paper provides support to the comparative ignorance hypothesis that we justify with contextual ambiguity hypothesis. In particular, the studies show that DMs behave differently to the same ambiguous situation. The experiment tests the hypothesis that the behavior of the DMs differs in a contextual ambiguity and interpret these differences in the light of findings on ambiguity effect and competence hypothesis.

References

- DeKay, Michael L., and Kim, Tai.G., 2005, When things don't add up. Psychological Science 16, 667-672.
- Ellsberg Daniel, 1961, Risk, Ambiguity, and the Savage Axioms. The Quarterly Journal of Economics Vol. 75, No. 4, 643-669.
- Fox, Craig R., and Amos Tversky, 1995, Ambiguity aversion and comparative ignorance. The Quarterly Journal of Economics., Vol. 110, No. 3, 585-603.
- Heath, Chip, and Amos Tversky, 1991, Preference and belief: ambiguity and competence in choice under ambiguity. Journal of risk and uncertainty 4, 5-28.
- Back, Kerry, 1992, Insider trading in continuous time. The Review of Financial Studies, Vol. 5, No.3, 387-409.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

- Tversky Amos, and Daniel Kahneman, 1974, Judgment under uncertainty: heuristics and biases. Science, New Series Vol. 185, No. 4157, 1124-1131.
- Liu, Hsin-Hsien, and Colman, Andrew M., 2009, Ambiguity aversion in the long run: repeated decisions under risk and uncertainty. Journal of Economic Psychology 30, 277-284.
- Tversky, Amos and Daniel Kahneman, 1992, Advances in prospect theory: cumulative representation under uncertainty. Journal of Risk and Uncertainty 5, 297-323.
- Keren, Gideon, and Wagenaar, Willem A., 1987, Violation of utility theory in unique and repeated gambles. Journal of Experimental Psychology: Learning, Memory, and Cognition 13, 387-391.
- Keren, Gideon, 1991, Additional tests of utility theory under unique and repeated conditions. Journal of Behavioral Decision Making 4, 297-304.
- Ford, J.L., and Sudip Ghose, 1998, Ellsberg 's urns, ambiguity, measures of uncertainty and non-additivity: some experimental evidence. Applied Economics Letters 5, 147-151
- Rode, Catrin, Leda Cosmides, Wolfgang Hell and John Tooby, 1999, When and why do people avoid unknown probabilities in decisions under uncertainty? Testing some predictions from optimal foraging theory. Cognition, 72, 269-304.
- Redelmeier, Donald A., and Amos Tversky, 1992, On the framing of multiple prospects. Psychological Science 3, 191-193.
- Schoemaker, Paul J.H., 2003, Subjective expected utility theory revisited: A reductio ad absurdum paradox. Theory and Decision, Vol. 33, No.1, 1-21

FACILITATING BEHAVIORAL FINANCE RESEARCH WITH THE SOCIAL SCIENCE RESEARCH NETWORK

Victor Ricciardi
Social Science Research Network (SSRN)
victor_ricciardi@ssrn.com

The purpose of this presentation on the Social Science Research Network (SSRN) is to provide behavioral finance academics, researchers, and practitioners an overview of the research services and features of the SSRN e-Library at www.ssrn.com. As an Editor, Coordinator, and Classifier for SSRN, Ricciardi will share his insights about SSRN with conference attendees. This presentation covers three main issues, including: 1) What are important tips for authors submitting a working paper or accepted paper abstract for distribution within a SSRN eJournal? 2) What is my perspective as an Editor for the SSRN eJournals in Behavioral/ Experimental Finance, Economics & Accounting? 3) What is my approach to selecting research papers for the new SSRN product known as the “Editor's Choice” eJournal? (My eJournal version of Editor’s Choice is called “Vic’s Picks.”)

The SSRN eLibrary consists of two parts: an Abstract Database containing abstracts on over 294,000 scholarly working papers and forthcoming papers with 138,000 authors and an Electronic Paper Collection currently containing over 244,300 downloadable full text documents in Adobe Acrobat PDF format.

**PROBLEMS IN MEASURING CONTRARIAN PERFORMANCE:
A RECONCILIATION OF RESULTS FROM ALTERNATIVE METHODOLOGIES**

**Steven Jones
Indiana University**

The debate over how to properly interpret long-horizon contrarian returns (i.e., winner-loser return reversals) is unsettled and centers on how best to adjust for risk in extreme past performers. Specifically, are the return reversals primarily due to time-varying risk. The conflicting results arise from the use of different methodologies, yet little is known about the relative merits of the methodologies in question. This paper analyzes these methods to evaluate their properties and reconcile the conflicting results. We show that these methods are all, to varying degrees, biased against detecting contrarian performance from factor reversals (i.e., systematic sources). A correction method, we introduce here, yields a risk-adjusted contrarian alpha of about 9 percent per annum using the CAPM beta. Adding the remaining two factors of the Fama-French Three-factor model reduces this alpha to about 2 percent per annum, but we show that the parameter estimates of the Three-factor model are also biased against detecting contrarian performance. We conclude that the truth is somewhere in the middle: an uncertain but material portion of long-horizon contrarian returns result from overreaction.

PRICING OF SKEWNESS IN EMERGING MARKETS

Dmitry Shapiro
UNC Charlotte
dashapir@uncc.edu

Xinde Zhang
UNC Charlotte
xzhang13@uncc.edu

The observation that the third moment of the asset returns distribution can be priced has been noticed by researchers since as early as seventies (Kraus and Litzenberger, 1976). In a standard single-factor CAPM model only the first two moments of portfolio returns matter. However, an immediate extension of the standard CAPM that allows the stochastic discount factor to be quadratic in the market return (and not linear as in the CAPM) leads to the prediction that asset coskewness with the market should be priced. This prediction has been confirmed by many empirical studies, (e.g. Harvey and Siddique, 2000). Models based on expected-utility preferences predict that while the asset's coskewness with the market should be priced, its idiosyncratic skewness should not. If, however, we assume that agents have cumulative prospect theory (CPT) preferences, as suggested by Tversky and Kahneman (1992), then idiosyncratic skewness should be priced as well (Barberis and Huang or BH, 2008). The intuition is simple. Investors with CPT preferences like portfolios with positively skewed returns. Such portfolios offer a small probability of a very large payoff. Since CPT investors overweigh small probabilities they find such portfolios very attractive. As the result these investors like to have large undiversified positions in a positively skewed security and are willing to pay a higher price for it. Zhang (2005) finds supportive empirical evidence of BH (2008)'s theory in the US market.

A major challenge in testing Barberis and Huang (2008)'s model is to construct a good "ex-ante" skewness measure which is what CPT investors care about. The most natural candidate --- past skewness --- is potentially problematic. In order to capture small probability events one would need to use a long history of returns which raises the concern of survivorship bias as well as overlooks the possibility that the stock's skewness can dramatically change over its life cycle. Zhang (2005) tries to avoid these problems by using the group approach to measure expected skewness. He groups similar stocks, i.e. stocks with similar characteristics such as industry, size, or book to market ratio, and calculates the intra-group cross-sectional skewness using only recent returns. He demonstrates that group skewness predicts future self skewness better than past self skewness. Furthermore, the group skewness estimates are more advantageous comparing to simple self skewness measures. First, it uses only recent returns and so avoids long history dependence. Second, since there are more stocks than time periods using cross-sectional returns is more likely to capture small event probabilities.

We use Zhang's measures to test the BH (2008) model prediction with data from 24 developing and emerging economies. We analyze both the pooled data and the data on the country level and

test whether the BH (2008)'s prediction holds and how different measures for estimating expected skewness compares with past self-skewness approach.

The contribution of our analysis is as follows. First, testing the Barberis and Huang (2008) model using the data from 24 countries greatly enhances our understanding of how robust is the effect of idiosyncratic skewness on asset pricing. Second, the setup considered by BH is based on the standard framework with frictionless markets and rational investors except that investors have CPT and not EU preferences. The actual stock markets are naturally quite different from this idealistic framework and, due to historical and institutional differences, more so for developing countries. Therefore, by studying stock markets with many idiosyncracies that are ignored by the classical setup we can see the applicability of the BH argument and to what extent it depends on particularities of the stock markets in different countries. Third, Zhang's group methodology while advantageous both by the construction itself and by its performance in the U.S. data has not been theoretically justified yet nor has it been confirmed with more empirical studies. If we show that its performance is consistently better than that of past self-skewness approach it would be a very strong empirical evidence in favor of the group methodology. This in turn could justify theoretical research of the issue as well as its use in further empirical studies.

The analysis in our paper consists of two parts. In the first part we use the pooled data from all 24 economies and in the second part we analyze the data from each individual country separately. Regardless of whether we use the pooled or the country-level data we start by constructing variables that would measure stocks' ex-ante skewness. In total, we used 9 different measures: two self-skewness measures which were calculated as skewness of past returns within either 36 or 60 months; five group measures where groups were defined based on either stock's country, its size or book-to-market ratio; and two distributional measures which capture asymmetry in cross-sectional return distribution by looking at the relative positions of the left and the right tails with respect to the median. The latter method specifically focuses on the tails of the distribution thereby reflecting the intuition that the CPT investors tend to overweight the probability of tails and therefore the importance of the outliers. Having constructed the proxies for skewness we first estimate how well each proxy predicts the future realized skewness and then whether and how they affect the stock returns.

Our results are as follows. First, the Barberis and Huang (2008)'s prediction that positively skewed stocks have lower returns on average is supported by our data. This is true both on the pooled and the country level analysis. In particular, on the country level idiosyncratic skewness had significantly negative impact on the stock return for 19 countries out of 24, was insignificant for the remaining five countries and was never positively significant. The negative effect remained after controlling for market capitalization, book-to-market ratio, lagged returns, asset coskewness with the market and idiosyncratic volatility of returns. This provides a strong empirical support to the BH (2008)'s prediction and suggests that the effect is robust to emerging countries as well.

Second, we show that in contrast with Zhang's results the self-skewness predicts future skewness better than other variables. While on the country level there are few instances when a particular group skewness variable would perform better than self skewness variables for the most of the

cases the self skewness tend to be a more robust predictor of the future skewness. Our results suggest that the Zhang's group skewness approach does not immediately extend to other countries. In particular, despite its potential advantages over self skewness approach the latter consistently outperforms it in our data.

REFERENCES

Barberis Nick and Ming Huang, 2008. Stocks as Lotteries: The Implications of Probability Weighting for Security Prices, American Economic Review 98(5), 2066-2100.

Harvey Campbell and Akhtar Siddique, 2000. Conditional Skewness in Asset Pricing Tests, Journal of Finance LV(3), 1263-1295.

Kraus, Alan, and Robert Litzenberger, 1976. Skewness Preference and the Valuation of Risk Assets, Journal of Finance 31(4), 1085-1100.

Tversky, Amos, and Daniel Kahneman, 1992. Advances in Prospect Theory: Cumulative Representation of Uncertainty, Journal of Risk and Uncertainty 5(4), 297-323.

Zhang Yijie, 2005. Individual Skewness and the Cross-Section of Average Stock Returns, mimeo, Yale University.

LIQUIDITY RISK PREMIUM PUZZLE AND POSSIBLE EXPLANATIONS

Shu Tian

University of New Orleans

Peihwang Wei

University of New Orleans

This study attempts to resolve the liquidity risk puzzle: a negative relation between returns and liquidity risk, documented by Chordia, Subrahmanyam, and Anshuman (2001b), by employing alternative liquidity measures and by incorporating factors that might potentially affect the relation. The sample covers the period 1975 to 2008 and the total number of firm-month observations is 415,403. The main findings are as follows. The relation between stock returns and volatility of liquidity depends on the measure of liquidity. When liquidity measures are based on trading volume, the results are largely mixed, but when liquidity is measured based on price impact of trading, the relation between returns and volatility of price impacts is positive, as expected. Moreover, the results are sensitive to time periods examined. The second part of our paper incorporates potential factors that might affect the relation between returns and liquidity volatility. Our results indicate that during extreme down markets, the aversion to liquidity volatility is lower, suggesting behavioral bias might potentially address the puzzle. We also find a firm size effect; specifically, liquidity risk premium tends to be greater for small stocks. Finally, when we include the VIX index as a proxy for investor sentiment, we find that the relation between returns and liquidity risk is significantly positive in four out of five liquidity measures. In sum, our analysis partially but not completely addresses the puzzle.

RIDING BUBBLES

Nadja Guenster
Maastricht University

Erik Kole

Ben Jacobsen

We empirically analyze rational investors' optimal response to asset price bubbles. We define bubbles as a sudden acceleration of price growth beyond the growth in fundamental value given by an asset pricing model. Our new bubble detection method requires only a limited time-series of historical returns. We apply our method to US industries and find strong statistical and economic support for the riding bubbles hypothesis: when an investor detects a bubble, her optimal portfolio weight increases significantly. A dynamic riding bubble strategy that uses only real-time information earns abnormal annual returns of 3% to 8%.

We test the impact of investor sentiment on a panel of international stock markets. Specifically, we examine the influence of investor sentiment on the probability of stock market crises. We find that investor sentiment increases the probability of occurrence of stock market crises within a one-year horizon. The impact of investor sentiment on stock markets is more pronounced in countries that are culturally more prone to herd-like behavior and overreaction or in countries with low institutional involvement. Results also suggest that investors' sentiment is not a reliable predictor of stock market reversal points.

Keywords: Investor sentiment, stock market crises, reversal points

JEL Classifications: G12, G14, G15

**HOW DOES INVESTOR SENTIMENT AFFECT STOCK MARKET CRISES?
EVIDENCE FROM PANEL DATA**

Mohmed Zouaoui
University of Franche-Comte

Genevieve Nouyrigat
University of Grenoble

Francisca Beer
California State University of San Bernardino

We test the impact of investor sentiment on a panel of international stock markets. Specifically, we examine the influence of investor sentiment on the probability of stock market crises. We find that investor sentiment increases the probability of occurrence of stock market crises within a one-year horizon. The impact of investor sentiment on stock markets is more pronounced in countries that are culturally more prone to herd-like behavior and overreaction or in countries with low institutional involvement. Results also suggest that investors' sentiment is not a reliable predictor of stock market reversal points.

Keywords: Investor sentiment, stock market crises, reversal points

JEL Classifications: G12, G14, G15

**INVESTOR BEHAVIOR AND ECONOMIC CYCLE:
THE IMPACT OF HUMAN BIASES AND COGNITIVE LIMITATIONS ON
ECONOMIC BOOMS AND BUSTS**

Beryl Y. Chang, PhD
European School of Economics
b.chang.faculty@ese.edu
beryl@cbadvisory.com

For more than half a century, the efficient market hypothesis and the rational expectations theory had been the milestones for policy makers and regulatory benchmark in the financial industry in the US and other OECD countries. In the past decade, however, these theories were considered to have worked only in its weak form and many believe that financial markets have been dominated by characteristics of human psychology. In light of the severe financial recession and economic bust we just experience, this paper examines whether market participants' biases, weaknesses, and limitations in information processing had contributed to the severity of the booms and the busts of economic cycles and how these human factors were revealed across time taking into account the dynamics of regulatory, technology, and market changes and the global shift in the investment community.

Given the damages of the economic shocks brought to human lives worldwide in the past decades, we investigate the impact of specific characteristics of market participants' behavior on various stages of an economic cycle under various market conditions using time series and panel data. Specifically, we search for (i) whether market participants' behavior had exacerbated the baseline dynamics of an economic cycle across time (ii) what, how, and the extent to which each behavioral characteristic contributed to a cycle when market rules and conditions change and (iii) what policy makers and regulators could do to discourage excessive behaviors while maintain certain market autonomy that leads to more sustainable growths in an economy.

While previous findings suggest that the excesses of market volatility were attributable to human factors, illustrated by overconfidence, availability heuristics, anchoring, irrelevance to history, over/under-reaction, and other traits, this study demonstrates that market deviates more from the technical fundamentals when it renders the opportunity for more human expressions and manipulation under certain conditions and ultimately leads to higher magnitudes and frequencies of economic booms and busts. In addition, market efficiency deteriorates further during boom periods and human biases, weaknesses in judgment, and limitations in information processing may be more pronounced in a mature economy.

Key words: behavioral finance; behavioral economics; economic cycles; investor behavior; human nature; emotion; cognitive limitation; neuroeconomics; financial crisis; market sentiment
JEL Codes: A3; E3; G3

**FAIRNESS NORMS AND SELF-INTEREST IN VENTURE
CAPITAL/ENTREPRENEUR CONTRACTING AND PERFORMANCE**

**Richard Fairchild
University of Bath, UK**

We consider the combined impact of agency problems and social fairness norms on venture capital/entrepreneur contracting and performance. Particularly, we develop a behavioural game-theoretic model in which a venture capitalist and an entrepreneur negotiate over their respective equity shares, and then exert value-adding efforts in running the business. Double-sided moral hazard exists in that both parties may exert sub-optimal effort (the ‘shirking’ problem). We demonstrate that, for a given level of VC-ability, an increase in social fairness norms induces the VC to offer more equity to the entrepreneur, which in turn induces the entrepreneur to exert more effort. This improves venture performance.

WHAT DRIVES PRIVATE EQUITY FIRM CERTIFICATION AT INITIAL PUBLIC OFFERING?

Mike Hopkins
Australian Catholic University
mike.hopkins@acu.edu.au

Donald G. Ross
Macquarie University
don.ross@mgsu.edu.au

Private Equity firms are thought to add considerable value to investee companies through their enhanced access to resources and improved corporate governance. This paper examines buy-side, financial analyst perceptions of the determinants of private equity firm added value – hereinafter called the certification effect – to investee companies at IPO. We adopted a mixed method approach combining factorial experimentation with in-depth interviews to establish the influence of possible determinants of certification. The findings reveal important and statistically significant relationships between the attractiveness of private equity firms' IPOs and (1) their reputations, (2) their level of retained ownership and (3) the duration of their involvement prior to the IPO. The influence of reputation dominates other factors although that of retained ownership is also large. The influence of duration of involvement is moderate. However, the influence of the interaction between duration and intensity of involvement is large and statistically significant and is driven by concerns over window dressing. The research reveals any certification effects are best explained by theories of resource exchange and reduced informational asymmetries with reduced agency risk being a much lesser influence.

**ENTREPRENEURIAL OVERCONFIDENCE, OUTSIDE EQUITY
AND SUCCESSFUL EXITS**

Craig R. Everett
Purdue University
ceverett@purdue.edu

According to data published by the U.S. Small Business Administration, from 2000 to 2004, there were consistent employment losses among large firms. During that same period, there were consistent employment *gains* among small businesses (defined as less than 20 employees). In 2004, small business generated 29% of total new jobs, but if job losses are netted out for that year, small businesses are actually responsible for 96% of overall employment gains (SBA 2007). As a primary driver of employment growth, entrepreneurship is a net economic benefit to society. Notwithstanding their importance, most new businesses fail within four years. The fact that entrepreneurs expend effort and resources in the pursuit of improbable success can be intuitively interpreted as overconfidence. This paper addresses the questions of how the level of entrepreneurial overconfidence impacts both the success and failure of startup firms, and the degree to which outside investment mitigates the negative effects of overconfidence.

There is a burgeoning body of literature that tries to get inside the seemingly irrational mind of the entrepreneur. Two facts emerge about what makes these people tick: 1) they tend to be overconfident in their abilities and 2) they tend to be overconfident in their likelihood of success (Hayward et al, 2006). This is bad news for outside investors. It is critical that a business plan be realistic and account for risk appropriately.

This paper investigates the relationship between successful exits (acquisition or IPO) and entrepreneurial overconfidence, while controlling for outside equity investment, risk-taking style, and firm characteristics. Using data from the Kaufmann Firm Survey⁴ of startup businesses, I create three separate measures of overconfidence and test their relationships with successful exits. I consistently find a negative relationship between overconfidence and exits. When testing for a curvilinear relationship, I find that the measure for overconfidence that I derive from observed entrepreneur changes in level of effort has a positive curvilinear relationship with exits. In other words, managers with either a very low or a very high level of overconfidence have a higher probability of successful exit.

The contribution of this paper is to show that there is a significant relationship between overconfidence and firm outcomes, and that the presence of outside investors mitigates the effects of that overconfidence. An additional contribution is the introduction of original empirical measures of entrepreneur overconfidence and the result that there may be a positive curvilinear relationship between overconfidence and exit.

⁴ Certain data included herein are derived from the Kauffman Firm Survey release 4.0. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of the Ewing Marion Kauffman Foundation.

Methodology

There are three possible mutually exclusive states for the firm at the end of the study: failure (worst case), survival, and exit (best case). The central model is a logistical analysis as shown in equation (1)

$$DISP_i = \alpha + \beta_1 OC_i^2 + \beta_2 OC_i + \theta FC_i + \gamma CEOC_i + \varepsilon_i \quad (1)$$

where DISP represents either EXIT or FAIL, depending on which outcome is being tested. OC represents entrepreneurial overconfidence from either attribution bias or escalation of commitment. FC represents the control variables for firm characteristics, such as risk-style, size, leverage and the presence of patents. CEOC represents a vector of traits of the entrepreneur herself. Both the firm and entrepreneur characteristics have been shown to be significant predictors of performance in other research. Overconfidence will be measured in three ways. From the perspective of attribution bias, an entrepreneur can be expected to asymmetrically update his level of confidence each period, depending upon the results of the previous period. As such, poor performance will result in a small decrease in confidence (attributing the failure to external forces), whereas good performance will result in a larger *increase* in confidence (attributing the success to himself). For the sake of simplicity, I assume that the increase is double the size of the decrease. Good performance is defined as the current year's profit being greater than the previous year's profit.

The second measure of overconfidence is based upon self-justification bias, which manifests itself through escalation of commitment. Even when empirical facts indicate that the entrepreneur should abandon the venture, he will continue to invest in order to avoid losing face or admitting failure, although he is unlikely to be aware of these unconscious motivations. This measure of overconfidence is built by simply counting the years in which the entrepreneur invested in his own firm, then dividing by the total number of years in business, yielding the percentage of years in which the entrepreneur invested. Since investment in any given year may or may not actually be irrational, I adjust this number by subtracting the percentage of years in which there was outside equity investment in the firm.

Both of these overconfidence measures rely upon proxies for the theoretical determinants of overconfidence based on either attribution bias or self-justification bias. I also generate a third measure that is based entirely upon the observed effects of overconfidence in ability. An entrepreneur with this type of overconfidence believes that she has the power to generate the desired firm outcome through her own efforts. To measure this overconfidence, I again start with the industry failure probability, then for each of the first three years, I calculate the HOURS_SLICE, which is the percentage of hours that entrepreneur works as a ratio to the total hours for the top five owners. I then calculate the percentage change in hours slice (which can be positive or negative) and add it to the starting overconfidence figure. Since many of these firms have only one owner working in the firm, these firms have a constant HOURS_SLICE of 100%, and hence no change from year to year. To capture the absolute change in manager hours,

I also calculate the percentage change in entrepreneur hours for each of the first three years and add it to the measure.

Results

Coefficients on the ability overconfidence measures based on profit changes in the second two years are highly significant and negative. Thus, the results support the idea that overconfidence is negatively related to successful exit. The squared term is never significant, which is not consistent with a curvilinear relationship between overconfidence and exit. The results also support the idea that the motivational effects of overconfidence dampen the effects of overconfidence in the short term, producing a negative relationship between ability overconfidence and failure, at least within the short time frame of this data set. With regard to self-justification bias, I find no evidence that escalation of commitment is related to successful exit. It is negatively related to failure, but this is obviously a somewhat mechanical result.

When overconfidence is measured by its motivational effects (hours worked by entrepreneur), it has a strongly significant positive curvilinear association with both successful exits and failures. This supports the idea that the best outcomes for the firm result from either very low or very high levels of overconfidence. This is a new result that is unique to this paper.

When testing the impact of outside equity, I find that having outside investors at firm startup significantly improves the likelihood of successful exit. Whether or not those investors have control of the firm does not appear to have any effect. Outside control has a significantly positive association with failure, though. This may be because outside investors are more willing than the entrepreneur to abandon a venture if milestones are not met.

REFERENCES

- Barber, Brad M. and Terrance Odean. 2001. Boys will be boys: gender, overconfidence, and common stock investment. *Quarterly Journal of Economics* 116, 261-292.
- Baron, Robert A. 1998. Cognitive mechanisms in entrepreneurship: why and when entrepreneurs think differently than other people. *Journal of Business Venturing* 13, 275-294.
- Benabou, Roland and Jean Tirole. 2002. Self-confidence and personal motivation. *Quarterly Journal of Economics*, Aug 2002, 871-915.
- Busenitz, L. and J. Barney. 1997. Differences between entrepreneurs and managers in large organizations: Biases and heuristics in strategic decision-making. *Journal of Business Venturing* 12, 9-30.
- Camerer, C. and D. Lovallo. 1999. Overconfidence and excess entry: An experimental approach. *American Economic Review* 89, 306-318.
- Cooper, A.C., C.A. Woo and W. Dunkleberg. 1988. Entrepreneurs perceived chances of success. *Journal of Business Venturing* 3, 97-108.
- Forbes, Daniel P. 2005. Are some entrepreneurs more overconfident than others? *Journal of Business Venturing* 20, 623-640.
- Gervais, S. and T. Odean. 2001. Learning to be overconfident. *Review of Financial Studies* 14, 1-27.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

- Hayward, Mathew L. A., Dean A. Shepherd, and Dale Griffin. 2006. A hubris theory of entrepreneurship. *Management Science* 52, 160-172.
- Headd, Brian. 2003. Redefining business success: Distinguishing between closure and failure. *Small Business Economics* 21.
- Kumar, Alok, 2009, Who Gambles in the Stock Market? *The Journal of Finance* 64, 1889-1933.
- Moskowitz, Tobias J. and Annette Vissing-Jorgensen, 2002, The returns of entrepreneurial investment: A private equity premium puzzle? *The American Economic Review*; Sep 2002, 745-778.
- Palich, Leslie E. and D. Ray Bagby. 1995. Using cognitive theory to explain entrepreneurial risk-taking: challenging conventional wisdom. *Journal of Business Venturing* 10, 425-438.
- U.S. Small Business Administration, 2007, *The Small Business Economy for Data Year 2006*. Washington, DC. December, 2007.

MARKET-WIDE SENTIMENT, UNDERWRITER QUALITY, AND IPO PRICING

Ning (Tony) Tang
Wilfrid Laurier University

Cynthia J. Campbell
Iowa State University

Yan Du
Barclays Global Investor

S. Ghon Rhee
University of Hawaii

We examine IPO pricing in relation to market-wide investor sentiment and underwriter reputation. We document a significantly positive correlation between market-wide sentiment and IPO offer price returns, indicating higher IPO pricing by underwriters when sentiment is more favourable. Purnanadam and Swaminathan (2004) report a positive correlation between underpricing and offer price return and the IPO literature documents a change in sign for the correlation between underwriter reputation and underpricing from negative in the 1980s to positive in the 1990s, which implies that the correlation between underwriter reputation and IPO offer price return should also change from negative to positive between the two periods. However, we find that underwriter reputation is consistently positively correlated to IPO offer price returns. Our results suggest that among issuers and subscribers, underwriters give priority to issuers' best interest.

**INDIVIDUAL INVESTORS' ADDITIONAL PURCHASE
AND REPURCHASE OF STOCKS PREVIOUSLY SOLD⁵**

Cristiana Cerqueira Leal⁶
University of Minho
ccerqueira@eeg.uminho.pt

Manuel J. Rocha Armada
University of Minho
rarmada@eeg.uminho.pt

We study individual investors trading behavior on the basis of a unique database that consists of trading records of 6 177 investors' accounts for the period from 01-08-2003 to 31-07-2007. These investors are under-diversified and trade too much. We find a preference for trading concentrated in few stocks with which the investor persistently develops a long relation. We find preferences for (1) repurchasing stocks previously sold for a gain; (2) repurchasing stocks that have lost value subsequent to a prior sale; (3) additionally purchasing more stocks if they have lost value after the first buy. We also find that these preferences are stronger for less active traders. These patterns can be explained by behavioral factors related to prospect theory, mental accounting and counterfactuals. Generally, individual investors take decisions to emphasize the positive experiences (gains), expected to be repeated, and avoid the sources of regret associated with negative experiences (losses realized).

Keywords: Investor Behavior; Individual Investors; Trading Behavior.

JEL Classification: G11; G12; G14.

⁵ We would like to thank Meir Statman and anonymous participants at the Finance Seminars on Behavioral Finance (Minho University) for their helpful comments. We also acknowledge financial support from the FCT - *Foundation* for Science and Technology.

⁶ Corresponding author.

PERFORMANCES OF AMATEURS' TRADERS ON A PUBLIC INTERNET SITE: A CASE OF A STOCK EXCHANGE CONTEST

Philippe Bernard¹ and Michel Blanchard²
LEDa^{1,2}, ASIEs², Dauphine Paris University¹ and INALCO²

In this paper, we analyze the trading performances of a very complete data base, indexing all the bid/ask orders and daily portfolio values of more than 600 amateurs' traders on line. The participants act within the framework of a stock exchange contest suggested by stock exchange Internet French site Zonebourse. The study show that amateurs' traders face catastrophic losses during the period. If 1% traders are "stars", who clearly win a lot relative to the market, more than 80% of traders lose. Their relative average result varies from -38% a year to -60% a year depending on analysis methods. Moreover we can't find any clear time persistence of results. Just some "happy few star traders" seem characterized by some persistence in their ranking in the long run. So, neither skill nor learning by trading clearly appears for the great majority. So, amateur's traders seem to behave just as casino gamblers and lose.

**DOUBLE THEN NOTHING:
WHY INDIVIDUAL STOCK INVESTMENTS DISAPPOINT**

Stephen R. Foerster
University of Western Ontario
sfoerster@ivey.ca

In their seminal work, Tversky and Kahneman (1974) argue that individuals often rely on heuristics that reduce the complexity involved in predicting values, but such heuristics can lead to severe and systematic errors. This paper tests their argument in the context of investments by focusing on a simple heuristic whereby investors are attracted to buying stocks that have recently doubled in price in anticipation of further gains. Such trend-following investors are referred to by DeLong et al. (1990) as “positive feedback traders.” I show that a strategy of buying stocks that have recently doubled in price can lead to predictable disappointment and severe underperformance (-28% over a four-year period) for these investors, whereas investors who avoid relying on this simple heuristic are likely to perform as expected, on average similar to the overall market. This “doubling” variable is a significant predictor of future price reversals in addition to past performance per se, as uncovered by DeBondt and Thaler (1985).

This paper’s research focus on stocks that have doubled in price is motivated by axioms highlighted in investment books and the popular press due to its simplicity, since any investor can readily relate to and strive for such doubling performance. Previous studies suggest that investors may be influenced by perceived price trends. DeBondt (1993) argues that, besides fundamental explanations, there are two other possible explanations as to why stock prices fluctuate, both of which are related to individual investor psychology and systematic misperceptions of value. First, investors put too much emphasis on the latest information and not enough on base-rate information, an application of Tversky and Kahneman’s (1974) representativeness heuristic. A similar argument is put forth by DeBondt and Thaler (1985) in their seminal study. Second, investors tend to discover trends in past prices and expect such trends to continue. DeBondt (1993) experiments by giving subjects 48 months of past prices for a variety of series and asks them to predict prices 7 and 13 months in the future. Based on 38,000 forecasts of stock prices and exchange rates he finds that non-expert individual investors expect a continuation of apparent past trends in prices.

This study considers the data-gathering behavior and performance of positive feedback traders who follow a simple price-trend heuristic to make investment decisions. I begin with a sample universe that focuses on stocks with a recent “stellar” past performance. A preliminary screen focuses on price. To avoid any “penny stocks” a minimum stock price of \$5.00 is required at the beginning of the screening period (in parallel analysis I also add the screen of a \$5.00 end-of-screening-period price).

The primary screen focuses on the stock’s recent track record. Despite the typical disclaimer that past performance is not indicative of future results, as the studies above suggest, past performance is frequently used (for example, by positive feedback traders) as at least one

important investment criterion. I argue that of particular appeal are any stocks that have doubled in price in the recent past, which I arbitrarily define as within the last four years (DeBondt (1993) presents subjects with four years of historical data). Identifying that a stock has recently doubled in price is a simple reference point for an individual investor, much simpler, say, then identifying a stock as being in the lowest decile of returns within a particular dataset over a particular sample period (as is common in many studies) – in the former case, all that is required is the recent price history of that one stock while in the latter case one needs to make a relative comparison over a much larger sample. Note that if a stock doubles in price in four years, then the average annual compound return (excluding dividends) is 18.9%, much greater than the long-run equity total return of 10-12%, depending on the sample period. (I intentionally ignore dividends because many individual investors tend to focus more on price levels as a frame of reference.) If the price doubles in three years then the average annual compound return is 26.0% and in two years is 41.4%. I screen on month-end stock prices for up to 48 months. If a stock has doubled in price within that time period, then it is categorized as a “stellar” stock that should appeal to positive feedback traders and is immediately placed in the investment universe (e.g., if a stock doubles in price after 18 months then no more history is required). Momentum stocks would typically fall under the stellar stock category so long as the stock has doubled reasonably quickly (e.g., in a 12-month period).

The other performance-based category is “non-stellar” stocks, i.e., those that do not double in price but yet still have a complete four-year track record. Such stocks form the universe for all other investors, whom I refer to as the fundamentalists. Value stocks would typically fall under this category. Note that any stock with a shorter track record (e.g., because it has gone bankrupt or has no longer met the listing requirements of the exchange) is not included in either investment universe and thus a “backward-looking” survivorship bias is induced in the screening period. However, there is no survivorship bias in the testing period.

In this study, I find an almost even split of the stocks in this survivorship-biased screening period sample that have at least doubled in price versus those that have not, with a total sample (i.e., doubled and non-double stocks) median annual return of 20.1% or a median excess-of-market return of 10.1%. However, in a subsequent four-year (survivorship-bias-free) investment period, only about a quarter of the total sample stock prices doubled (or more), with a total sample median annual return of a disappointing 6.6% (excess-of-market return of -3.6%). Those that doubled in the screening period are less likely to double subsequently than those that had not doubled previously, invariably leading to disappointment for the positive feedback trader group. The cumulative excess return after four years for those stocks is -28.0%. In contrast, fundamentalists who invest in stocks that did not double during the screening period experience near-zero cumulative excess returns after four years (-0.2%).

I then investigate the extent to which stock returns for this sample are predictable and thus whereby investors either can improve their chances of investment success, or perhaps overlook the predictable component of stock returns. Much of the cross-sectional variation in investment period returns can be explained not only by past stock performance (a negative relationship) and test period (or investment period) market returns (a positive relationship as expected), but also whether the stock has recently doubled in price (negative), past earnings (a positive relationship),

and various valuation-related metrics measured at the start of the investment period. A probit model identifies ex ante variables that are able to predict whether or not a stock will at least double in value over the investment period. An investment strategy based on the predicted probability of a stock doubling offers large potential rewards.

While this study is related in particular to the overreaction or contrarian profits literature and papers such as DeBondt and Thaler (1985, 1987), it is nonetheless distinct in a number of ways. First, instead of focusing on categorizing stocks in portfolios based on historical “winner” or “loser” returns relative to one another, it relies on one simple heuristic readily available to any investor with a recent history of past stocks prices – identifying whether a stock has doubled in price within the past four years. Second, this study relies on a much extensive sample of firm-observations, including over 5,000 cases of firms that have doubled during the screening period. In contrast, DeBondt and Thaler (1985) focus on portfolios that average only between 35 and 50 stocks for their three and five year periods, respectively. Third, as I show in a hypothetical example of price patterns, it is not necessarily the case that the firms that I categorize as “stellar” (and thus have doubled in price over the screening period) coincide with DeBondt and Thaler “winners.” As I show, it is possible that my sample of “doubling” stocks might actually include stocks that would have been categorized by DeBondt and Thaler and others as either winners, losers, or in neither such category. Thus while some of my results are consistent with some of the findings of previous studies, I argue that the phenomenon of the doubling stocks is an example of a simple heuristic and may be distinct from the winners/losers phenomenon in a similar way that Hwang and Thomas (2004) find a 52-week high phenomenon that is related to but distinct from other momentum studies. My analysis confirms that the “doubling” portfolio (made up of stocks that have recently doubled in price) contains a sample of stocks in each of 16 distinct 3-year sample periods that is approximately two-thirds different from the corresponding DeBondt and Thaler “winner” portfolio, and yet the reversal effect is just as strong.

This research contributes to the behavioral finance literature and also offers a possible explanation of why individual investors may have a tendency to choose attractive-looking growth and large cap stocks, which have performed well in the survivorship-biased screening period, whereas value and small cap stocks tend to do better over the long-term. This research also shows that stock return predictability may be based on some very simple information readily available to most investors.

References:

- DeBondt, Werner, 1993, Betting on trends, Intuitive forecasts of financial risk and return, International Journal of Forecasting 9, 355-371.
- DeBondt, Werner, and Richard Thaler, 1985, Does the stock market overreact?, Journal of Finance 40, 793-805.
- DeBondt, Werner and Richard Thaler, 1987, Further evidence on investor overreaction and stock market seasonality, Journal of Finance 42, 557-581.
- De Long, J. Bradford., Andrei Shleifer, Lawrence Summers, and Robert Waldmann, 1990, Positive feedback investment strategies and destabilizing rational speculation, Journal of Finance 45,379-395.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

- Hwang, Chuan Yang and Thomas J. George, 2004, 52 week high and momentum investing, Journal of Finance 62, 2145-2176.
- Tversky, Amos and Daniel Kahneman, 1981, The framing of decisions and the psychology of choice, Science 211, 453-8.

WHY BAD NEWS IS GOOD NEWS: MARKET FORECASTS BASED ON INVESTOR REACTION TO UNEXPECTED NEWS

G. L. “Biff” Robillard, III
Bannerstone Capital Management, LLC
biff@bannerstonecapital.com

Seth Bender

Revised November 2008 and July 2010

© 2002 by Biff Robillard and Seth Bender. All rights reserved. Short sections of text, not to exceed two paragraphs, may be quoted without explicit permission provided that full credited is given to the source.

A stock market rally in response to surprisingly high unemployment news, during a contraction, is a buy signal for investors.

Stock markets, on average, will rally on higher-than-expected unemployment news during expansions, yet fall on the same news during contractions. This is because unemployment news contains two types of primitive information relevant for valuing stocks: information about 1) future interest rates and 2) future corporate earnings and dividends. A surprisingly high unemployment rate typically signals a decrease in future interest rates which is good news for stocks, as well as a decline in future corporate earnings and dividends, which is bad news for stocks. The relative importance of the two depends on the state of the economy. Information about future interest rates dominates during expansions (low interest rates while business is good is a positive factor for stock prices), and information about future corporate earnings and dividends dominate during contractions (in a slowdown, earnings expectations drive stock prices, regardless of interest rates). However, under certain rare circumstances, markets may actually contradict the common sense interpretation of worse-than-expected unemployment news and rally. This event can be significant to investors.

We find that *during contractions, market rallies in response to higher than expected unemployment news (which appears contradictory) signal economic recovery and imminently higher stock markets.* This often occurs within a few months of the end of a recession. Investors apparently begin to value low future interest rates over slightly lower growth expectations, i.e. they are transitioning from a recession response (when earnings matter most) to an expansion response (when interest rates matter most). This is an early indication that the economy is in a transition from contraction to expansion, and more importantly a sign equity markets are recognizing the imminent end of the contraction. With this understanding, we make our most important discovery: *A stock market rally in response to surprisingly high unemployment news, during a contraction, is a buy signal for investors.*

“AGENT SENTIMENT AND STOCK MARKET PREDICTABILITY”

Chandler Lutz
University of California-Riverside

Using only market return data we create an original index via a dynamic factor model for stock market sentiment. We find that rising sentiment relates to rising returns. Using our index we develop one-step ahead out-of-sample forecasts for market weighted returns. These forecasts outperform a random walk plus drift model and improve on previous out-of-sample exercises. We also employ dynamic Bayesian Model Averaging (BMA) and develop Two-Stage Bayesian Model Averaging (2SBMA). We find that these techniques can improve forecast performance. Lastly, we use our index to quantitatively chronicle sentiment cycles. We find that sentiment cycles often lead bear markets.

THE IMPACT OF HURRICANES ON INVESTOR SENTIMENT AND STOCK MARKET RETURNS

Daniel E. Huerta
The University of Texas-Pan American
dhuerta@utpa.edu

Daniel Perez-Liston
The University of Texas-Pan American

In this paper, we employ an event study methodology to examine the possible impact of hurricanes on investor sentiment and stock market returns. Our results show that there is a significant decrease in stock returns on the day the hurricanes make landfall and one day prior. Additionally, we observe that not all industries are significantly impacted and that firms with larger market capitalization are the least impacted by hurricanes. Further, we find a significant increase in investor fear on the day of hurricane landfall, and a significant decrease in investor sentiment on the week prior to landfalls. These results suggest that hurricanes and the anticipation of these storms have a significant and negative impact on both stock market returns and investor sentiment.

**FAST PROFITS: INVESTOR SENTIMENT AND STOCK RETURNS DURING
RAMADAN**

Jedrzej Bialkowski
University of Canterbury
jedrzej.bialkowski@canterbury.ac.nz

Ahmad Etebari
University of New Hampshire
ahmad.etebari@unh.edu

Tomasz Piotr Wisniewski
University of Leicester
tpw5@leicester.ac.uk

Observed by more than 1.5 billion Muslims, Ramadan is one of the most celebrated religious rituals in the world. We investigate stock returns during Ramadan for 14 predominantly Muslim countries over the years 1989-2007. The results show that stock returns during Ramadan are almost nine times higher and less volatile than during the rest of the year. No discernible difference in trading volume is recorded. We find these results consistent with a notion that Ramadan positively affects investor psychology, as it promotes feelings of solidarity and social identity among Muslims world-wide, leading to optimistic beliefs that extend to investment decisions.

JEL Classifications: G12, G14

Keywords: Ramadan Effect, Behavioral Finance, Market Efficiency, Religion

**EXECUTIVE COMPENSATION: AN EXAMINATION OF THE INFLUENCE OF TMT
COMPENSATION ON RISK-ADJUSTED PERFORMANCE**

William Kline, CFA
Temple University
william.kline@temple.edu

In this paper, we simultaneously capture the impact of executive pay mix on firm performance and risk through a risk adjusted performance measure. Focusing on top management teams in the post Sarbanes Oxley era, over the period from 2004 through 2006, we find that as options constitute a higher percentage of total compensation packages, executives become less risk averse and, as a result, subsequent firm risk-adjusted performance declines. We also find an inverse relationship between top management team (TMT) stock ownership and risk adjusted performance. Therefore, our findings suggest that firm stakeholders should reconsider the likely influence of option-based incentives and equity holdings on managerial decisions.

**PREEMPTIVE BIDDING IN TAKEOVER AUCTIONS:
AN EXPERIMENTAL STUDY**

Yuri Khoroshilov
University of Ottawa
Khoroshilov@telfer.uottawa.ca

This paper presents experimental analysis of jump bidding in English auctions with entry costs. It provides support for the signaling hypothesis behind jump bidding and analyzes how the size of the entry costs affects the bidders' behavior. It also shows that jump bidding allows the reallocation of the surplus from the seller to the first bidder but has little effect on the total surplus and the profit of the second bidder.

Acknowledgement: This research is supported by the Social Sciences and Humanities Research Council of Canada strategic research grant in management, business and finance.

This paper presents experimental analysis of jump bidding in English auctions with entry costs. It provides support for the signaling hypothesis behind jump bidding and analyzes how the size of the entry costs affects the bidders' behavior. It also shows that jump bidding allows the reallocation of the surplus from the seller to the first bidder but has little effect on the total surplus and the profit of the second bidder.

JEL code: D44, C91; G34

INVESTOR SENTIMENT AND REAL INVESTMENT

R.David McLean
University of Alberta

Mengxin Zhao
University of Alberta

We study the effects of systematic investor sentiment on investment and external finance over a 44-year period. Investment, external finance, and mergers and acquisitions all rise and fall over time with sentiment. Sentiment causes both investment and external finance to be more sensitive to growth opportunities and less sensitive to cash flow. Profitability increases following investment and external finance in low sentiment years, and declines following investment and external finance in high sentiment years. Investment and external finance predict low stock returns in high sentiment years, but not in low sentiment years, suggesting that investment and external finance return-predictabilities are the result of mispricing. Overall, the findings are broadly consistent with a sentiment-costly external financing framework in which sentiment affects the prices of risky securities, which in turn affects external finance, which in turn affects investment.

**LOSS AVERSION AND ANCHORING IN COMMERCIAL REAL ESTATE PRICING:
EMPIRICAL EVIDENCE AND PRICE INDEX IMPLICATIONS**

Sheharyar Bokhari

David Geltner*

We consider two famous phenomena from behavioral economics: loss aversion (based on prospect theory), and anchoring, for the role they played in the pricing of commercial property in the U.S. during the 2000s decade. We find that loss aversion played a major role, approximately as big as was found by Genesove & Mayer in their 2001 study of the 1990s Boston housing market. We also find that more experienced investors, and larger more sophisticated investment institutions, exhibit *at least* as much loss aversion behavior as less experienced or smaller firms. We extend earlier research by examining how behavior changes in different market environments during the dramatic cycle of 2001-09, and discover that loss aversion operated most strongly during the cycle peak and turning point in 2007, and then became virtually ineffective during the extremely severe drop in the demand side of the market during the 2008-09 crash.

We extend previous work by developing longitudinal price indices of the U.S. commercial property market that control for, and explicitly incorporate, the behavioral phenomena we have modeled. From an econometric methodology perspective, these price indices suggest that controlling for behavioral phenomena can be quite important for developing successful hedonic price indices. The indices also suggest that, while the behavioral phenomena are important at the individual property level, the impact of the psychological loss aversion behavior reflective of prospect theory was sufficiently attenuated at the aggregate market level such that the pricing and volume cycle in the U.S. commercial property market during 2001-09 was little affected by it. However, we document substantial strategic pricing differences between sellers facing a gain compared to sellers facing a loss, consistent with a strategy to sell winners and hold onto losers, with the extent of the pricing difference varying longitudinally across the market cycle.

* The authors are both with the MIT Center for Real Estate, Commercial Real Estate Data Laboratory, 77 Massachusetts Ave, Cambridge MA 02139. The authors thank Real Capital Analytics Inc (RCA) and Real Estate Research Institute (RERI), for respectively providing data and the financial support for this paper.

Bokhari is the contact author, at sbokhari@mit.edu (phone 617-299-9314).

CAN REAL ESTATE AGENTS IMPACT PERCEIVED PROPERTY VALUES?

Michael J. Seiler*
Professor and Robert M. Stanton Chair of Real Estate
Old Dominion University
mseiler@odu.edu

Mark Lane
Hawaii Pacific University
mlane@hpu.edu

Vicky L. Seiler
Johns Hopkins University
vickyseiler@cox.net

David M. Harrison
Texas Tech University
david.m.harrison@ttu.edu

The ability to persuade is important because it can get you out of a speeding ticket, help get your kids to eat their vegetables, find employment (Morrow, 1990), earn a higher salary (Biddle and Hamermesh, 1998), and eventually get promoted (Marlowe, Schneider, and Nelson, 1996). Persuasiveness is not just conveyed through words. Even criminals (who are commonly advised not to take the stand and speak) benefit from having the “right” look during judge sentencing. Montepare and Zebrowitz (1998) document that judges are more likely to believe (and give more lenient sentences to) baby-faced defendants who deny charges relating to intentional transgressions. This is because baby-faced individuals, whose appearance is more child-like, are viewed as being more innocent. Conversely, in cases where the defendant is being charged with a crime of neglect or carelessness, judges are softer on those with mature faces which are perceived as being more competent. In the political arena, Todorov et al. (2005) find that physical attractiveness alone can successfully predict nearly 70% of elections. In sum, persuasiveness is a characteristic that can be achieved through words and/or mere physical appearance.

In this study, we examine the effect that real estate agent physical attractiveness, verbal spin, and gender have on the perceived market value of residential real estate. To conduct this experiment, we create 8 (2 x 2 x 2) unique variations of a Web-based tour/slideshow of the same home. The key to experimental design is to hold constant other factors while changing only the variable of interest. To control for the level of agent physical attractiveness, we use before and after makeover photos for both a male and female real estate agent⁷. This is done because variables

⁷ Feingold (1992) and Langlois et al. (2000) find that measures of beauty are highly reliable (consistent) both within and across-cultures. Interestingly, even infants seem to agree with what constitutes beauty (Langlois et al., 1991; Langlois et al., 1990; and Langlois et al., 1987).

such as ethnic make-up, facial shape and symmetry, eye shape and color⁸, size of forehead⁹, and so forth, are essentially impossible to hold constant when photos of two different people are used¹⁰. To isolate the effect of positive spin versus a neutral presentation of the home, we begin by recording a positive description of the property. Throughout this tour, extra words/opinions are expressed to enhance the perception of and help “sell” the property. We then digitally delete all the superlatives to arrive at our neutral presentation of the property where just the objective, quantifiable facts about the property are provided.

In an ideal experiment, to examine the effect of gender while holding everything else constant, we would have liked to have found before and after makeover photos of people who immediately afterwards underwent a sex change and then again did a before and after makeover. Since this is not practical/possible, we attempt the next best thing. We selected a physically attractive matched pair agent photo of a man who also underwent a makeover causing a shift from unattractive to attractive status¹¹. We then took the exact same neutral and positive property descriptions spoken with a female voice and digitally altered them to create a male’s voice¹². This allows us to hold constant countless subtle, otherwise variable attributes such as voice inflection, dialect, word emphasize, and so forth, when going from the female agent photo to the male agent photo.

We even designed the experiment to steer clear of biases relating to the name we choose for the agent. We did not want to change the name across gender, so we selected a common, yet gender-neutral first name. Concerning the agent’s last name and firm name, we wanted to remain neutral as well. That is, we did not want to use a unique name that participants thought they recognized. After conducting a search through the Social Security Administration database for the most common gender-neutral first names and the most common last names in the United States, we decided on using a constant fictitious agent named Chris Brown of Jones Realty. To our knowledge, this is the most complete and exhaustive effort to hold constant so many key variables at once.

In this study, we investigate a precise set of questions. Specifically, “Can an attractive agent positively influence a homebuyer’s willingness to pay for a property?” “Can a real estate agent influence the perceived value of the home simply by using positive spin when describing the residence?” “Do the results hold independent of the agent’s gender?” Do any of these answers change when considering the characteristics of the potential homebuyer?

⁸ In a study of consumers, Simpson, Sturges, and Tanguma (XXXX) conclude that advertisers can better connect with their target market when their spokesperson shares the same eye color.

⁹ Zebrowitz (2003) associates large foreheads with a higher perceived level of intelligence.

¹⁰ After considering thousands of photos, images of a Caucasian man and woman were chosen that are as similar in age, genetic make-up, hair and eye color, etc., as humanly possible. The images were adjusted so that the facial features were the same size across all images.

¹¹ We use an Ohanian (1990) inspired approach to ensure that the level of attractiveness was held as reasonably constant as possible when switching agent genders.

¹² This new audio file was then played to a test group unfamiliar with the project. The people's thoughts and reactions to the altered voice were recorded. None of the people tested suspected that the voice had been digitally altered in any way, shape, or form. No one suspected the altered recording was not a male’s.

Study Design

Why Residential Real Estate?

The exact market clearing price of a particular residential property is difficult to agree upon because of differences in individual tastes and preferences. The result is a price that Rees (1993) refers to as a “zone of indeterminacy.” Alternatively stated, a potential buyer’s willingness to pay (WTP) for a property is both a subjective and emotional decision. As such, it would seem a likely arena in which behavioral consideration might be taken into consideration (again, on either a conscious or subconscious level).

Residential real estate also continues to gain a greater Internet presence over time. Agent Websites have been repeatedly shown to be necessary and effective places to showcase homes that are for sale (cite needed). Studies also show that when people search for homes on the Internet, first impressions can make all the difference (cite needed). With thousands of homes on the market to consider, potential homebuyers spend mere seconds evaluating a property (usually by seeing the front of the home - a.k.a. the “curb appeal” photo). If the property has no curb appeal, the homebuyer will quickly move on to the next home’s photo. It is reasonable to conclude then that anything that catches the eye of an Internet surfer, might slow them down long enough to take a second look¹³. An attractive property can catch the eye of a potential homebuyer, and an attractive agent might be able to do the same thing¹⁴.

There are several reasons why a real estate agent might not be able to effectively alter the perceived market value of residential real estate. It can be argued that even if a real estate agent can influence the WTP of a potential homebuyer, it will not matter because before the transaction is completed, an appraiser (who is unlikely to even come in contact with the agent) will independently verify the accuracy of the price of the home. A lender will place a maximum willingness to lend based on the lower of the agreed upon selling price and the appraisal value. While true, the argument that an agent’s ability to influence perception of value is important in terms of a WTP up to the listing price still exists. That is, homebuyers usually offer an amount below asking price when they feel a property is listed too high. But, if they become convinced the property is fairly listed or listed too low, they are less likely to attempt to negotiate as much, or at all. Therefore, the ability of an agent to influence perceptions of property value is still important.

¹³ Huhmann, Franke, and Mothersbaugh (2009) study the impact of including a photograph with an advertisement in a magazine. Including a photo of an average-looking person increased customer attention to the ad by 4%. But, including a photo of an attractive celebrity increased the attention score of the ad by 20%. Internet advertisers often use the photo of an attractive woman to sell unrelated things, say financial services. Their hope is to draw the eye of the individual within the target market to the photo just long enough that the person might observe (even read) their advertisement. Although scientifically yet to be tested, the concept is certainly being employed on the Internet as well.

¹⁴ Observationally speaking, real estate agents who pay to use their photograph on the side of a bus or on a park bench tend to be more on the attractive end of the spectrum. It would seem this strategy is already at work within the field.

SPECULATIVE BEHAVIORS and MORTGAGE BUBBLES in the REAL ESTATE MARKETS of CHINA

Sheng Wang
Department of Economics, GC-CUNY, 10016
wangsheng00@tsinghua.org.cn

From the beginning of 1949 to the end of 1980s, it is well known that China's residential system was of dual-structure, that is, the government supplied public houses for non-rural residents' lease with low rents, and rural residents built their own houses scattered in the broad rural areas around. Thereafter, the government massively started to reform the residential system in the 1990s, and sold all public houses to those who occupied them through leases, but the rural residents were excluded from those social welfares. The government has completely established the real estate markets and speeded the development of urbanization across the China-mainland since the end of 1990s. The structure of real estate markets varies from the original one to its evolution as shown in Figures 1 and 2 below:

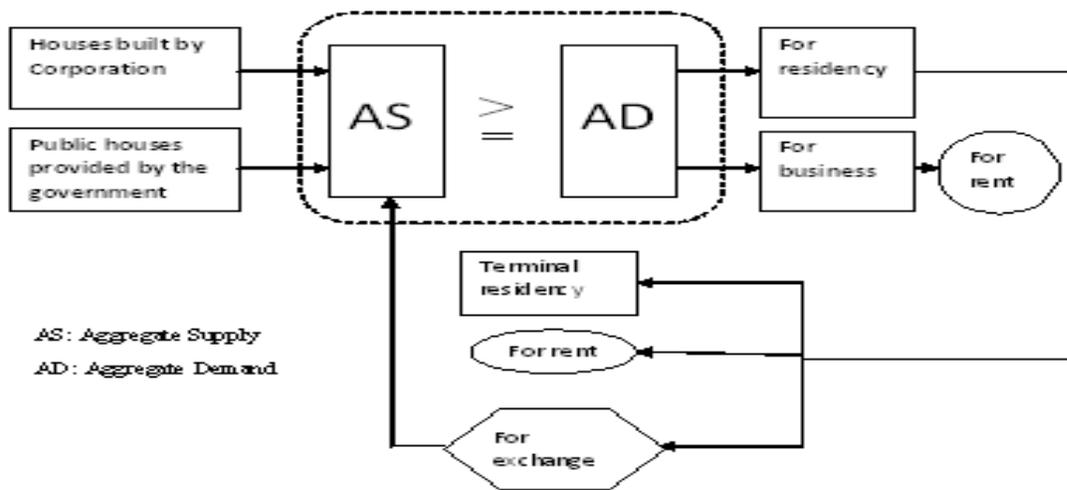


Figure 1. The structure of the original real estate markets

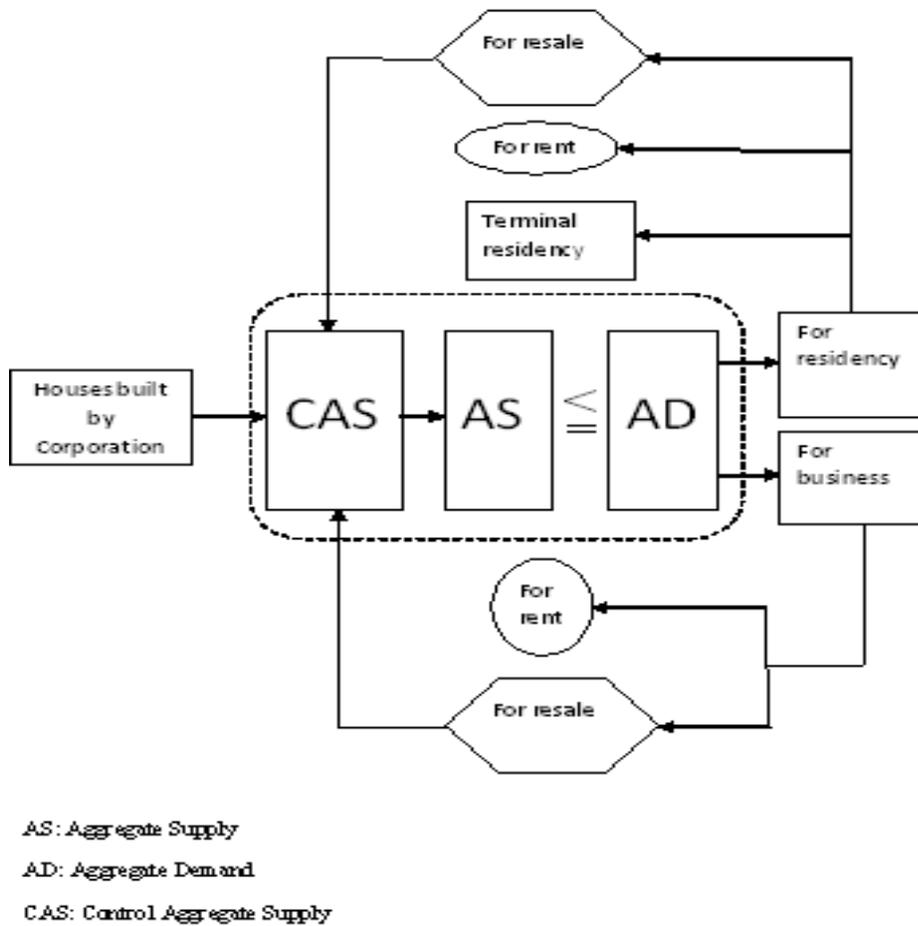


Figure 2. The structure of the evolution of the original real estate markets

Aftermath, anyone who would like to obtain a new house has to buy it in the real estate markets, because the government takes the housing industry as one of the predominated industries in China, and forbids any non-rural resident to build his/her own house by himself/herself in laws or in administrative regulations. From the beginning of 2000 to present, there are more and more residents who have bought houses by mortgages backed by commercial or investment banks, and the real estate markets have been being boomed for years.

Irrational exuberances are seriously obvious in the real estate markets of China. But, the speculative behaviors are sustainable to be stimulated depending upon some illusion or predicted perceptions from the residents: there are more and more non-rural residents created from the speedup of the urbanization program; that the lands for construction become fewer and fewer would certainly lead to higher price of houses; the expectation of inflation would be greater and the devaluation would be hardly escaped; and a house is always appreciated with no doubt.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Of course, with strong expectation to swoop irrational profits, the speculative behaviors have significantly affected the uncertainty of China's economy and its structures. How to describe the irrational behaviors and measure their effects on the uncertainty of Banks' loans is a great challenge in the academe and the administrative authorities. According to the differential characteristics of the real estate markets of China, I have established notable dynamical models for describing the speculative behaviors to evaluate mortgage bubbles, which approximately depict the potential risks Banks would face. In order to keep the speculative behaviors effectively, the growth rate of the price of a house for sale must have a positive minimum boundary, namely, if the growth rate is sufficiently small or is non-positive, then the speculative behaviors cannot be maintained. One of the interesting conclusions is expressed as:

The denser the cluster of the speculative behaviors is, the easier it is to earn an extra investment profit, as long as the lesser growing bubbles exist.

Keywords and Phrases: Real estate market, price of house, speculative behavior, dynamical model, mortgage bubble, bank

JEL Classification Code: C61, D84, O53, L11, R21, R31, R33

A SYSTEMATIC INVESTORS' OVERREACTION TO GROWTH CONSISTENCY IN QUARTERLY ACCOUNTING-BASED PERFORMANCE MEASURES

Abdulaziz Alwathainani
York University

Results reported in this study suggest securities markets in which stock prices systematically overreact to consistency in information signals contained in firms' quarterly performance. Eventually this overreaction is corrected, creating financial momentum and return reversals. Conditioning on growth consistency in firms' recent quarterly financial performance, I show that an unbroken string in accounting-based measures creates a strong financial momentum over the first three months following the ranking period. However, this momentum reverses over the next nine-month period. By the end of the first twelve months, the financial momentum has been completely wiped out by subsequent reversals in stock prices. The magnitude of this initial price continuation and subsequent reversal are more pronounced for consistent high (low) growth firms relative to their inconsistent high (low) performer counterparts. These findings are robust to the Fama-French three factors extended by SUE (standardized unexpected earnings) to control for earnings surprise effects and to various sensitivity analyses. Evidence reported in this study is consistent with the spirit of recent behavioral models.

Key words: Consistency in quarterly accounting-based financial performance measures; Financial momentum; Price reversals; Investors' overreaction; Investors' psychology

JEL classification: G12; G14; M41

CONTENT OF STOCK SPAM EMAILS AND MARKET REACTIONS

Bill Hu

Arkansas State University

xhu@astate.edu

Thomas McInish

The University of Memphis

tmcinish@memphis.edu

Li Zeng

Arkansas State University

zengli@astate.edu

Finance is a top area for spammers, largely due to the quick returns they can earn from buying and selling penny stocks. Many countries have enacted laws to regulate spam e-mails. In addition, spam filters have been developed and widely installed. However, little is known about whether trading behavior is linked to the content of spam e-mail messages.

In this study, we investigate how the content of spam e-mails affects the price and trading volume of the touted stocks. We analyze the content of stock spam e-mails promoting stocks to individual investors to determine the factors that influence traders' reactions. Using over 40,000 spam messages touting 785 firms in 580 spam campaigns (SCs) from November 2004 to August 2007 from www.crummy.com,¹⁵ a dataset several previous studies have used to investigate the effect of stock spam e-mails (E.g., Hanke & Hauser, 2008; Hu, McInish, & Zeng, 2009). We identify three attributes that could potentially affect whether investors buy the touted firm's stock. These attributes are target price, message length, and touting international business.

Literature Review and Hypotheses

Small investors tend to naively respond to analyst recommendations, that is, small investors respond irrationally to analyst information (Malmendier & Shanthikumar, 2007). Therefore, target prices in analyst reports may have investment value (Huang, Mian, & Sankaraguruswamy, 2009; Brav & Kehavy, 2003; Asquith, Mikhail, & Au, 2005) and result in sub-optimal trading decisions on the part of retail investors. Hence we propose:

H1: Stock spam e-mails with a target price are more effective than those without a target price.

Message length is an important determinant of successful e-mail campaigns. Consumers generally prefer short messages with no more than one scroll of the screen. Chittenden and Rettie (2003) find that longer e-mail messages are associated with lower consumer response and higher unsubscribe rates. On the other hand, some messages are very lengthy because they include previous news releases from the spam target firm. The circulation of previous press releases to a

¹⁵ We thank Leonard Richardson from www.crummy.com for supplying the spam e-mail dataset.

wider audience may have an impact on stock prices. Tetlock (2008) investigates stock market reactions to public news stories containing stale information and finds that investors may trade on stale information if they confuse old information already reflected in stock prices with new information. Individual investors' overreaction to stale information may cause temporary movements in asset prices. Barber and Loeffler (1993) find significant increase in abnormal return and trading volume in response to stale information. They attribute the abnormal market reaction as a result of naive buying pressure. Therefore we propose our second hypothesis:
H2: Market reactions are inversely related to the length of stock spam e-mails.

Finally, past research has documented a home bias in stock trading. Country attributes are still critical to financial globalization because rulers of sovereign states and corporate insiders may pursue their own interests at the expense of outside investors. Gelos and Wei (2005) find that systematically less funds are invested in less transparent countries. In addition, investors are much more familiar with their local financial market than with foreign markets. As a consequence, they feel somewhat uneasy about investing their money in a remote country or an unfamiliar currency (Solnik and McLeavey, 2008). Researchers (e.g., Cooper & Kaplanis, 1994) identify a home preference in portfolio investment, although no one has provided satisfactory explanations for such a large bias. Hence our last hypothesis:

H3: Stock spam e-mails targeting firms headquartered outside the United States are less effective compared to those targeting domestic firms (home bias hypothesis).

Methodology

Our sample includes 580 stock SCs. We obtain daily closing prices, high and low intraday prices, volume, market value, market to book ratio, number of shares outstanding, and industry data from Datastream for 395 of these firms. We manually collect the country and state of incorporation data using Google search. We define the independent variables of our study by identifying the following three key spam attributes: price, message length, and international business. We retrieve the current price and target price from the spam e-mails. We use the word count function in Microsoft Word to count the number of words in the spam e-mail. If the spam e-mail mentions either that the firm is headquartered outside the U.S. or is doing business outside the U.S., we code it as touting international business. We then apply the event study methodology to determine the market reactions associated with each spam attribute, which include abnormal returns, volume, and volatility effects on the peak day of the SC. We also examine the cumulative abnormal returns surrounding the SCs. Abnormal return (AR) is defined as the difference between the stock return and the Russell 2000 return, which is a proxy for market return.

Results and Discussion

Of the 580 spam campaigns we analyze, 197 SCs (34%) give a short-term target price for the firm touted while 86 SCs (15%) also provide a long-term target price. The length of the spam e-mails range from 34 to 4,203 words, with an average of about 943 words and a median of 770 words. The length variable is positively skewed and has a wide dispersion (SD= 694). The majority of firms touted in SCs are small in size, with a mean of \$20 million and a median of

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

\$75,000. Many touted firms have negative book value, with an average market to book ratio of 4 and a median of 0. The average number of shares outstanding is over \$35 million. The number of shares outstanding ranges from 1,000 to over 1 billion. The 382 sample firms are incorporated in 15 different countries, with about 22 percent of the firms incorporated out of the United States.

We find that e-mails providing a target price generate abnormal returns and trading volume at the height of the spam campaign, providing support for H1. These SCs have higher abnormal returns, about 5 percent, compared to the 0 percent abnormal returns for SCs without a target price. Both the share turnover and abnormal dollar volume are significantly higher for the SCs with a target price. The abnormal dollar volume on the Peak Day is about 5 times the average daily dollar volume for the SCs with a target price, compared to 3 times the average daily dollar volume for the SCs without a target price. The risk or intra-day price range is also significantly higher when a target price is included in the spam e-mail.

More than half of the stock spam e-mails tout international aspects of the underlying company. As predicted in the home bias hypothesis, the SCs touting global aspects of the spammed stock receive no abnormal return. The abnormal return for SCs not touting international business of the underlying firm is about 4 percent, significantly higher than that for SCs touting international business of the spammed firm. Therefore, H3 is supported.

We do not find significant differences in market reactions for message length, leading to the rejection of H2. There are two possible explanations for the lack of difference in reaction to message length. On the one hand, individual investors tend to pay little attention to the e-mail length. Instead, more attention is paid to target price and domestic nature of the touted business. On the other hand, many e-mail messages include press releases that contain outdated information, but investors might mistake the stale information for real “news,” leading to poor investment decisions.

References

- Asquith, Paul, Michael B. Mikhail, and Andrea S. Au, 2005, Information content of equity analyst reports, Journal of Financial Economics 75, 245-282.
- Barber, Brad M., and Douglas Loeffler, 1993, The " Dartboard" column: Second-hand information and price pressure, Journal of Financial and Quantitative Analysis 28, 273-284.
- Brav, Alon, and Reuven Lehavy, 2003, An empirical analysis of analysts' target prices: Short-term informativeness and long-term dynamics, The Journal of Finance 58, 1933-1967.
- Chittenden, Lisa, and Ruth Rettie, 2003, An evaluation of e-mail marketing and factors affecting response, Journal of Targeting, Measurement and Analysis for Marketing 11, 203-217.
- Cooper, Ian, and Evi Kaplanis, 1994, Home bias in equity portfolios, inflation hedging, and international capital market equilibrium, Review of Financial Studies 7, 45-60.
- Gelos, R. Gaston, and Shang-Jin Wei, 2005, Transparency and international portfolio holdings, The Journal of Finance 60, 2987-3020.
- Hanke, Michael, and Florian Hauser, 2008, On the effects of stock spam e-mails, Journal of Financial Markets 11, 57-83.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

- Hu, Bill, Thomas McInish, and Li Zeng, 2009, The CAN-SPAM Act of 2003 and stock spam emails, Financial Services Review 18, 87-104.
- Huang, Joshua, G. Mujtaba Mian, and Srinivasan Sankaraguruswamy, 2009, The value of combining the information content of analyst recommendations and target prices, Journal of Financial Markets 12, 754-777.
- Malmendier, Ulrike, and Devin Shanthikumar, 2007, Are small investors naive about incentives?, Journal of Financial Economics 85, 457-489.
- Solnik, Bruno, and Dennis McLeavey, 2008. Global investments (Pearson Prentice Hall).
- Tetlock, Paul C., 2008, All the news that's fit to reprint: Do investors react to stale information?, Working paper, Yale University.

EVIDENCE ON INVESTOR BEHAVIOR FROM AGGREGATE STOCK MUTUAL FUND FLOWS

**Evgenia Golubeva
University of Oklahoma**

Complementing the finding of previous studies that aggregate net equity mutual fund flows are positively correlated with stock market returns, we find that aggregate net equity fund flows are strongly negatively correlated with both changes in and the level of expected future stock market volatility as measured by the VIX. Implying that investor purchase decisions are primarily driven by returns and sale decisions by risk perceptions, changes in the VIX primarily impact aggregate equity mutual fund redemptions with little impact on aggregate purchases while stock market returns impact purchases but not redemptions. After controlling for the VIX and stock market returns, aggregate net mutual fund flows are not significantly correlated with any of the macroeconomic measures we consider, except possibly the household saving rate; nor are they correlated with consumer sentiment. We find month-of-year flow patterns consistent with: 1) tax minimization, and 2) a tendency to rebalance portfolios at the first of the year.

HETEROGENEOUS AMBIGUITY AVERSION: A FIELD EXPERIMENT AMONG SMALL SCALE STOCK INVESTORS IN CHINA

Elizabeth Potamites
Mathemathica Policy Research, Inc

Bei Zhang
Shanghai University of Finance and Economics
beizhangbei@gmail.com

We conducted quasi-field experiments in Chinese brokerage houses to investigate how investors react to ambiguity relative to quantifiable risks and the degree of heterogeneity in these reactions. Our experiment consists of three sections; a background survey; individual self-reports of emotional states; and a series of individual portfolio choice questions involving ambiguous assets and assets with a known probability of success. By conducting these experiments in China, we were able to measure the degree of ambiguity aversion among a sample of experienced and accessible investors who face ambiguous decisions on a daily basis. We calculate an index of ambiguity aversion that controls for risk aversion through a series of simple choices and demonstrate its external validity. We find a significant degree of heterogeneity in ambiguity attitudes ranging from ambiguity averse to very ambiguity loving. On average we do not find a gender difference both in terms of risk attitudes and ambiguity attitudes. We also discuss the correlation between ambiguity attitudes and risk attitudes, and some demographic or emotional factors that might contribute to the heterogeneity of ambiguity attitudes.

DISPOSITION EFFECT IN FUTURES COMMODITY MARKET: EVIDENCE ON BEHAVIORAL FACTORS FROM TRADE SIMULATED WEBSITE

Mouze M.Kebede
Texas Tech University
m.kebede@ttu.edu

Economic decisions in real world usually involve an element of risk and decisions in such environment will be based on objectively known probabilities defined on abstract set of possible outcomes. Stock and future markets are typical example of such an environment as economic agents in these markets are uncertain regarding risky outcomes at the time they make a decision. This in turn has created an interest among the academia and business world in terms of how investors make a decision in stock market and what aspect they consider in their decision and how such factors relate to investors performance. Previous literature on the topic have identified what Sherfrin and Statman^[4] called a disposition effect where people sell winning stocks too soon and keep in losing stocks for long . Though this result is inconsistent with standard expected utility theory which assumes decision makers as risk averse, it's in line with Kahneman and Tversky^[1] prospect theory where agents have an inclination to avert loss realization in situations under uncertainty. According to Kahneman and Tversky^[1], when subjects face choices involving risk such as playing a gamble, they reveal concave shaped value function in the domains of gains favoring risk averse preference and convex shaped value function in the domain of losses favoring risk. Certain outcomes are over-weighted relative to probable outcomes in the positive domain and thus leading to risk averse choice for certain gain over a larger gain that is risky and individuals choose a higher loss with some probability than a sure loss in the negative domain, thus favoring risk in the domain of loss.

Despite such theoretical and empirical work in equity markets, research works in commodity markets are scarce. Inference on traders' behavior in commodity futures from investors behavior in stock market could be misleading as commodity futures are inherently different from conventional stocks or assets as they have short maturity, large volatility and don't entail dividends or claims as long lived corporations. Traders in commodity futures receive compensation for bearing the risk of short term commodity price fluctuation. Given such differences from the stock market, this research looked in how traders behave in regards to winning and losing contracts in futures market. In addition, this research will look in how prior investment decisions affect subsequent decision. At last, we also see whether subjects differ in terms of exhibiting disposition effect as a reluctance to liquidate a losing asset relates to self control problem (Glick as cited in Sherfrin and Statman^[4]).

The analysis is conducted using experimental trading records of 15 senior undergraduate agricultural economics students who were actively trading on simulated trading website as a course requirement for option and futures class. The dataset includes all trades made in 14 accounts from February 3, 2010 to April 12, 2010 and contains 588 records. Interest rate of 6.5 percent for funds not used has been set and no consideration is set for taxes which as a result this analysis excludes any tax motivated transactions. Preliminary analysis using methodology

developed by Odean^[3] indicates that traders in futures exhibit same behavioral pattern as stock investors in selling winning and losing future contracts. Yet, unlike Odean^[3] result from the stock market, we observed higher disposition effect in both winning and losing contracts in futures market where over 90 and 60 percent of winning and losing future contracts were realized in the date the traders execute a sale transaction. This might be largely attributable to the unique feature of future contracts in terms of maturity and volatility. In addition, we also found strong influence of prior outcome in subsequent trading activities which was in line with quasi hedonic editing hypothesis of Thaler and Johnson^[5]. At last but not least, we have looked in whether trading discipline has any influence on subjects trading behavior which in our sample was found to have insignificant effect.

References

- [1] D. Kahneman and A. Tversky.1979. Prospect theory: An analysis of decision under risk. *Econometrica*, 47: 263-91.
- [2] Locke P.R and Mann S.C. 2005. Professional trader discipline and trade disposition. *Journal of Financial economics*, 76: 401-444.
- [3] Odean, T.1998. Are investors reluctant to realize their losses? *Journal of Finance*, 53: 1775-1798.
- [4] Sherfrin,H., & Statman, M.1985. The disposition to sell winners too early and ride losers too long: Theory and evidence. *Journal of Finance*, 40:777-790.
- [5] Thaler R.H. and Johnson E.J. 1990. Gambling with the house money and trying to break even: the effects of prior outcomes on risky choice. *Management Science*, 36: 643-660.
- [6] Weber M. and Camerer C. F. 1998. The disposition effect in securities trading: an experimental analysis. *Journal of Economic Behavior and Organization*, 33: 167-184.
- [7] Weber M. and Zuchel H. 2005. How do prior outcomes affect risk attitude? Comparing escalation of commitment and the house money effect. *Decision Analysis*, 2:30-43.

**DECISION MAKING PROCESS IN GRAIN MARKETING:
A STUDY IN THE CANADIAN MARKET**

Fabio Mattos
University of Manitoba
fabio_mattos@umanitoba.ca

Stefanie Fryza
University of Manitoba
umfryzas@cc.umanitoba.ca

This study focuses on marketing decisions of wheat producers, where marketing refers to the process of pricing and selling grain to food processors or consumers. In the context of grain marketing it is traditionally assumed that producers follow standard economic theory, which assumes that people make decisions logically, strategically and out of self-interest. However, empirical research finds that individuals deviate from logical and strategic decisions (De Bondt and Thaler, 1995; Hirshleifer, 2001; Barberis and Thaler, 2003). Empirical studies have also found that agricultural producers often violate the principles of standard economic theory when making marketing decisions (Eales et al., 1990; Collins et al., 1991; Cruz Junior, 2008; Riley and Anderson, 2009).

The objectives of this research, in the context of pricing alternatives and risk management for wheat producers, are to gather a better understanding of how producers make marketing decisions, examine types of behavior that might affect their decision making process, and discuss ways to help producers improve their decision making process. The grain market in Western Canada offers a unique opportunity to explore these issues. All wheat producers must market their crop through the Canadian Wheat Board (CWB), which is the largest grain marketing agency in Canada and offers several different marketing alternatives to producers. The oldest pricing alternative is pool pricing, which is the default program (producers are assumed to keep their wheat in the pool accounts unless otherwise indicated). The pool accounts aim to guarantee that all producers receive the same return and work by pooling together all the wheat sales made during the year. The CWB also offers Producer Payment Options (PPO) contracts, which allow producers to price their own grain using futures contracts through the CWB. For all PPO contracts there is a marketing window during which producers need to let the CWB know about their choices. Producers can decide to use more than one type of PPO contract and also combine PPO contracts with pool accounts.

A unique dataset for the crop years of 2003-04 through 2008-09 made available by the Canadian Wheat Board is used in this research. The dataset contains transactions made by 67,798 producers indicating (i) what programs (pool accounts or PPO contracts) they marketed their wheat through, (ii) how many tonnes of wheat were delivered to each program, (iii) exact dates when PPO contracts were signed, (iv) final price received by each producer for their wheat, (v) seeded acres, and (vi) province/municipality.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Two models are used to explore producers' marketing decisions. The first model examines whether producers have better information or analytical skills to outperform the "pool." This would indicate whether producers are overconfident in their ability to detect profit opportunities in futures markets and price their own wheat outside of the pool accounts. The second model explores the role of current price signals and previous year's marketing strategy and return in marketing choices. This model investigates how producers respond to current expected prices from different strategies, and how they are influenced by prior choices and profits when making decisions. In both models control variables are included to take into account possible differences in behavior due to crop size, geographical location, and the time of the year when marketing decisions are made

The results of this study provide new insights into the decision making process of grain producers. Overall, producers and the CWB can benefit from this research as its results may help improve the design and communication of marketing alternatives developed by the CWB for producers. The findings can also be relevant for government agencies, extension programs and market advisory services which might be able to gather more insights about producers' decision making process.

INVESTOR SENTIMENT AND EXCHANGE RATES FROM GLOBAL PERSPECTIVE

Fang Fang
University of Texas-Pan American
ffang@broncs.utpa.edu

Lifeng Li
University of Texas-Pan American

Dave Jackson
University of Texas-Pan American

Using monthly data, we examine the dynamic interactions and causal relations between investor sentiment in the U.S stock market and foreign exchange rates against the U.S. dollar in 21 economies from January 1971 to December 2005. The empirical results suggest that foreign exchange rates demonstrate a Granger causality on investor sentiment in 13 countries, however, the effect of investor sentiment on exchange rates vary among different countries. Our results may be explained by diverse institutional quality and investing culture in different economies.

Key word: investor sentiment, exchange rates, Granger cause

JEL classification codes: F31; F37

PATRIOTIC NAME BIAS AND STOCK RETURNS

Marek Johec
ISCTE Business School

Evangelos Benos
ISCTE Business School

Stocks with "patriotic" names earn positive abnormal returns of about 6% per annum during the Second World War, the War in Korea and the War on Terror. These abnormal returns are not realized immediately upon the outbreak of each of the wars but are accumulated gradually during wartime. We hypothesize that victorious wars arouse investors' patriotic feelings and cause them to gradually and perhaps subconsciously gravitate toward stocks whose name has a patriotic flavor.

MOMENTUM AND BEHAVIORAL FINANCE

Ding Du
Northern Arizona University
ding.du@nau.edu

What explains momentum is a critically important question. Many studies rely on structural asset pricing models, and find that risk adjustment does not explain momentum. However, as Jegadeesh and Titman (2002) suggest, structural models may not account for all risk factors, and therefore test results based on structural models may not be reliable. This paper extends the momentum literature along the lines of Jegadeesh and Titman (2002). Our findings suggest that momentum may have multiple sources. Risk or behavioral biases in isolation may not be sufficient to explain momentum.

References

Jegadeesh, Narasimhan, and Sheridan Titman, 2002. Cross-sectional and time-series determinants of momentum returns. Review of Financial Studies 15, 143-157.

DO ALL INDIVIDUAL INVESTORS LOSE BY TRADING?

Wei Chen
Shenzhen Stock Exchange
wchen@szse.cn

Zhuwei Li
Dongbei University of Finance and Economics
54awu@163.com

Yongdong Shi
Dongbei University of Finance and Economics
ydshi@263.net
ydshi@dufe.edu.cn

We document that not all individual investors who participate in stock market pay a tremendous performance penalty for active trading. This study employs a unique dataset including the complete transaction history and account information of all shareholders of SZSE stocks in Chinese Mainland from January 1, 2002, through December 31, 2007. The sample therefore contains daily detail trading records of SZSE A shares transacted by 68.41 millions institutional and individual brokerage accounts during the period, which is unparalleled comprehensive and large. Our data allows us to identify trades made by individuals or institutions, which fall into ten categories (The three individual categories: the Smallest Group, the Middle Group, and the Largest Group; the five institutional categories: Investment Funds, Social Insurances Funds, Investment Banks, QFII, and Other Institutions which include Insurances, Assets Management Corporations and Other Corporations). To analyze who gains and loses from trade, we construct portfolios that mimic the purchases and sales of each investor group. If stocks bought by an investor group reliably outperform those that they sell, the group benefits from trade. In addition, using the past-return-based behavior analysis of investors in each trade, we are able to examine whether different trading results can be attributed to different trading behaviors.

Our empirical analysis makes three important contributions.

First, we present a clear portrait that not all individual investors incur substantial losses, even though individuals lose, institutions win. The Middle Group and the Largest Group of individuals are both gain from trade net of costs just like the institutions. During our sample period, we document that trading losses of individual investors are equivalent to 1.36 percent of Chinese Mainland's GDP or 3 percent of total personal income (4.2% of the city residents' income and 10% of the country residents' income) – nearly as much as the total private expenditure on the financial services in the mainland. In detail, individual investors lose \$RMB239.66 billion from their trading in negotiable stocks from 2002 to 2007. Losses can be traced to (1) gross trading losses (\$RMB 75.86 billion), (2) commissions (\$RMB 82.14 billion), (3) stamp duties (\$RMB 81.66 billion). Among the individuals, the Smallest Group's trading loses are totally \$RMB 245.54 billion, which can be traced to \$RMB 84.52 billion on gross trading, \$RMB 79.91 billion on commissions and \$RMB 80.78 billion on stamp duties. In contrast, the wealthier group (the Middle and the Largest Group) benefits from investments

about \$RMB 5.88 billion after commissions and stamp duties, with a profit net of transaction costs of 0.57 percent annually just as the institutions who enjoy an annual performance boost of 2.63 percentage points after commissions and stamp duties, but before other costs.

Second, the reason why not all individuals lose in stock trading can be seen in the trading behaviors of these investors. The wealthier individuals share the exactly same decision with institutions both in buy behaviors and sell behaviors, such as they all use the contrarian strategy when buying and momentum strategy when selling. So they share the same trading strategy, share the same trading benefits. By contrast, the least sophisticated players in the financial markets in Chinese Mainland are the less wealthy investors. These investors pursue buy and sell stocks when the prices are both rising. And what they buy and sell is both apt to lose their money in the future.

Third, this paper also compares the international conclusions of the existing studies and market situations. We present the stock trading performances of individual and institutional investors in Chinese Mainland, Taiwan, Finland, America, and Japan. Even though the financial market situations of Chinese Mainland are quite different from other countries and district, and even though the sample datasets of the existing studies are subsets of the whole market in America and Japan, they shared the similar conclusion that individual investors in Chinese Mainland, Taiwan, Finland, America, and Japan incur the poor average performance compared with institutional investors, but not all individuals incur the poor performance in their stock trading.

Main References

- Barber, Brad M. and Terrance Odean, 1999, The Courage of Misguided Convictions: The Trading Behavior of Individual Investors, *Financial Analyst Journal*6, 41-55.
- Barber, Brad M. and Terrance Odean, 2000a, Trading is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors, *Journal of Finance*2, 773-806.
- Barber, Brad M. and Terrance Odean, 2000b, Too Many Cooks Spoil the Profits: Investment Club Performance, *Financial Analyst Journal*1, 17-25.
- Barber, Brad M. and Terrance Odean, 2001, Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment, *Quarterly Journal of Economics*1, 261-292.
- Barber, Brad M. and Terrance Odean, 2002, Online Investors: Do the Slow Die First? , *Review of Financial Studies*15, 455-487.
- Barber, Brad M., Yi-Tsung Lee, Yu-Jane Liu, and Terrance Odean, 2007, Is the Aggregate Investor Reluctant to Realize Losses?, *European Financial Management*, forthcoming.
- Barber, Brad M., Yi-Tsung Lee, Yu-Jane Liu, and Terrance Odean, 2007, Just How Much Do Individual Investors Lose by Trading? , *The Review of Financial Studies*, forthcoming.
- Dhar, Ravi, and Ning Zhu, 2006, Up Close and Personal: An Individual Level Analysis of the Disposition Effect, *Management Science*52, 726-740.
- Fama, Eugene F., and Kenneth R. French, 1993, Common Risk Factors in Returns on Stocks and Bonds, *Journal of Financial Economics*33, 3-56.
- Feng, Lei and Mark S. Seasholes, 2004a, Correlated Trading and Location, *Journal of Finance*59, 2117-2144.
- Feng, Lei and Mark S. Seasholes, 2004b, Portfolio Choice and Location of Trade, Working Paper, UC Berkeley.
- Feng, Lei and Mark S. Seasholes, 2005, Do Investor Sophistication and Trading Experience Eliminate Behavioral Biases in Finance Markets? , *Review of Finance*9, 305-351.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

- Grinblatt, Mark and Matti Keloharju, 2000, The Investment Behavior and Performance of Various Investor Types: A Study of Finland's Unique Data Set, *Journal of Financial Economics*25, 43-67.
- Grinblatt, Mark and Matti Keloharju, 2001, What Makes Investor Trade? , *Journal of Finance*56, 589-616.
- Grinblatt, Mark, and Matti Keloharju, 2006, Sensation Seeking, Overconfidence, and Trading Activity, NBER, Working Paper, 12223.
- Ivkovich, Zoran, Clemens Sialm, and Scott J. Weisbenner, 2004, Portfolio Concentration and the Performance of Individual Investors, *Journal of Financial and Quantitative Analysis*, forthcoming.
- Ivkovich, Zoran, and Scott J. Weisbenner, 2004, Local Does as Local Is: Information Content of the Geography of Individual Investors' Common Stock Investments, *Journal of Finance*60, 267-306.
- Kee-Hong Bae, Takeshi Yamada and Keiichi Ito, 2006, How do Individual, Institutional, and Foreign Investors Win and Lose in Equity Trades? Evidence from Japan, *International Review of Finance*6, 129-155.
- Krause, Andreas and Zhishu Yang, 2005, Behavioral Bias of Traders: Evidence for the Disposition and Reverse Disposition Effect, Working Paper, University of Bath.
- Lilian Ng and Fei Wu, 2007, The trading behavior of institutions and individuals in Chinese equity markets, *Journal of Banking & Finance*31, 2695-2710.
- Odean, Terrance, 1998a, Are Investors Reluctant to Realize Their Losses, *Journal of Finance*53, 1775-1798.
- Odean, Terrance, 1998b, Volume, Volatility, Price, and Profit When All Traders Are Above Average, *Journal of Finance*53, 1887-1934.
- Odean, Terrance, 1999, Do Investors Trade Too Much? , *American Economic Review*89, 1279-1298.
- Parlour, Christine, 1998, Price Dynamics in Limit Order Markets, *Review of Financial Studies*11, 789-816.
- Polkovnichenko, Valery, 2005, Household Portfolio Diversification: A Case for Rank-Dependent Preference, *Review of Financial Studies*18, 1467-1502.
- Poteshman, A.M., and V. Serbin, 2003, Clearly Irrational Financial Market Behavior: Evidence from the Early Exercise of Exchange Trade Stock Options, *Journal of Finance* 58, 37-70.
- Westerholm, Joakim and Kuuskoski, 2003, Do Direct Stock Market Investments Outperform Mutual Funds? A Study of Finnish Retail Investors and Mutual Funds, Working Paper, the University of Sydney, Helsinki, Finland.
- Wermers, Russ, 2000, Mutual Fund Performance: An Empirical Decomposition into Stock-Picking Talent, Style, Transactions Costs, and Expenses, *Journal of Finance*55, 1655-1694.
- Yates, J. Frank, Ying Zhu, David L. Ronis, Deng-Feng Wang, Hiromi Shinotsuka, and Masanao Toda, 1989, Probability Judgment Accuracy: China, Japan, and the United States, *Organizational Behavior and Human Decision Processes*43, 145-171.

**DO INSTITUTIONS PAY TO PLAY?
TURNOVER OF INSTITUTIONAL OWNERSHIP AND STOCK RETURNS**

Valentin Dimitrov
Rutgers University
vdimitr@business.rutgers.edu

Vladimir A. Gatchev
University of Central Florida
vgatchev@bus.ucf.edu

We document a new type of holding cost faced by active institutions. Specifically, we show that stocks in which institutions trade more tend to be overvalued and subsequently experience relatively low returns. Because most institutions do not take short positions, on average they have long positions in the stocks they trade. As a result, the low subsequent returns on actively traded stocks impose a holding cost on institutions that is due to overvaluation. Our estimates suggest that this cost can be large. Based on ten portfolios, we find that stocks with the highest turnover of institutional ownership earn 8.9% lower subsequent one-year returns than stocks with the lowest turnover of institutional ownership. We find that active trading by institutions entails holding costs only when institutions trade against individuals and not when they trade against other institutions. We show that institutions face higher expected holding costs when they trade in stocks that are characterized by high disagreement among investors (as measured by high total share turnover and high return volatility) and in stocks with high relative valuations (as measured by low book-to-market). In additional tests we find that an increase in institutions' trading opportunities (as measured by an increase in their holdings) is associated with an increase in the expected holding costs due to overvaluation. We do not find evidence that the relatively poor performance of actively traded stocks is explained by price pressure stemming from the institutional trades themselves.

INVESTMENT PHILOSOPHIES AND INVESTMENT BELIEFS DETERMINE INVESTMENT OUTCOMES

Andrew Masonⁱ

A wide range of styles is in operation within the U.S. equity market but despite the fact that similar terminology may be used to describe a fund's style there is no consensus on style definition. Our definition of an equity investment style is a group of investors who share common beliefs, whose portfolios share common characteristics and whose investment portfolios behave similarly under varying conditions. The motivation of this study is to explore style classification based on portfolio holdings to establish a style classification method that goes further than prior studies in terms of systematically identifying the differentiated mutual fund products that reflect investment managers' philosophies and processes and to confirm the validity of those style groups in terms of their *ex post* explanation of the cross-section of mutual fund returns. The investment process filters the universe of available investments to reflect a fund manager's investment philosophy and the resultant portfolio contains systematic biases in terms of investment characteristics which determine a fund's investment performance under varying market conditions.

The results of our analysis based on a large group of U.S. Diversified equity mutual funds confirms that mutual fund portfolios reflect the investment beliefs and philosophies of their investment managers. These investment beliefs are filtered through the investment process to generate portfolios with systematic biases in terms of portfolio characteristics which are measured by a combination of growth and valuation metrics. Our Characteristics Based System (CBS) confirms the existence and extend the range of differentiated fund styles noted by Brown and Goetzmann (1997) for growth funds and Michaud (1998) for value. We also identify differentiated fund styles within the neglected 'Core' or 'Market Oriented' category which is a significant part of the mutual fund universe. Style groups formed on the basis of these characteristics using a combined factor analysis and cluster analysis methodology meet the criteria of a successful classification process; funds within the style behave similarly when tested out of sample and funds within different style groups behave heterogeneously. An interesting development was also observed when considering the behaviour of these style groups under three different stock market phases, a bull phase, a bear phase and a recovery phase; not only did they behave differently to reflect the different market conditions but the style groups also continued to behave differently to each other in each phase. Thus we conclude investment philosophies and investment beliefs determine investment outcomes.

JEL classification G11, G14, G20, G21, G22, G23

Keywords Behavioral Finance, Investment Style, Mutual Funds, Portfolio management, Asset management

ⁱCorresponding author andrew.mason@surrey.ac.uk University of Surrey, UK

BEHAVIORAL ASPECTS OF INVESTMENT FUND'S MARKETS: ARE GOOD MANAGERS LUCKY OR SKILLED?

Sílvia Bou Ysàs
Universitat Autònoma de Barcelona
Silvia.Bou@uab.cat

Magda Cayón Costa
Universitat Autònoma de Barcelona
Magda.Cayon@uab.cat

It is generally accepted that financial markets are efficient in the long run although there may be some deviations in the short run. It is also accepted that a good portfolio manager is the one who beats the market persistently along time, this type of manager could not exist if markets were perfectly efficient.

According to this in a pure efficient market we should find that managers know that they cannot beat the market so they would undertake only pure passive management strategies. Assuming a certain degree of inefficiency in the short run, a market may show some managers who try to beat the market by undertaking active strategies.

From Fama's efficient markets theory we can state that these active managers may beat the market occasionally although they will not be able to enhance significantly their performance in the long run. On the other hand, in an inefficient market it would be expected to find a higher level of activity related with the higher probability of beating the market.

In this paper we follow two objectives: first, we set a basis to analyse the level of efficiency in an asset investment funds market by measuring performance, strategies activity and it's persistence for a certain group of funds during the period of study. Second, we analyse individual performance persistence in order to determine the existence of skilled managers.

The CAPM model is taken as theoretical background and the use of the Sharpe's ratio as a suitable performance measure in a limited information environment leads to a group performance measurement proposal. The empirical study takes quarterly data from 1999-2007 period, for the whole population of the Spanish asset investment funds market, provided by the CNMV (Comisión Nacional del Mercado de Valores). This period of study has been chosen to ensure a wide enough range of efficient market observation so it would allow us to set a proper basis to compare with the following period.

In order to achieve our objectives, we develop a model that allows us to measure efficiency in a given asset mutual funds market, based on the level of strategy's activity undertaken by managers.

The first aim of this paper is to identify whether there is a level of efficiency that can be considered as a baseline operational range of efficiency. We have approached this measurement by using a concentration around the passive benchmark portfolio indicator.

We observe different behavioural patterns of activity that allow us to distinguish between the post 2001 (Dot-com crisis and September 11) and the rest of the periods.

This behavioural differences might be explained as a consequence of managers having lost confidence in market prices, as Brealey-Myers (2003 p.362) state: "...investors almost always price a common stock relative to yesterday's price, when investors lose confidence in the benchmark of yesterday's price , there may be a period of confused trading and volatile prices before a new benchmark is established." This lost of confidence leads to a more accurate pricing which will increase market's efficiency and consequently narrow the range of undertaking successful active strategies. So after a convulsion concerning the framework model of financial markets we might expect the level of efficiency to increase and the number of active strategies to lower.

As a result of this first analysis we would like to highlight the Sharpe's ratio deviation from the passive portfolio third and fourth moment methodological approach. That has allowed us to measure, how active managers are and how successful their strategies are , for each category of Investment Funds set by the data. And moreover has permitted us to set what we have called the Baseline Efficiency Operational Range.

It is important to mention that though we are able to detect good performance, we cannot find any kind of statistically significant correlation between the market level of efficiency and successful management.

The second aim of this paper is to identify good managers. We use the Fama's net selectivity as a success indicator. But according to the EMH the existence of these successful managers is a consequence of having a not long enough data series, so we take the NS_p as the random residual of a regression model resulting from using the CML to explain funds returns. Given that, according to the EMH this residual should have expected value equal to zero and have a Gaussian distribution, so we test for Gaussian distribution of successful funds and we reach the following conclusion: Though there is a high percentage of successful managers during the period of study for all categories, there is an important part of them that might have been successful only by randomness given the results of the gaussianity test we run that don't allow us to reject the null hypothesis for the NS_p to be a $N(0, \sigma)$ random residual .

According to the results shown by ours analysis, there are some behavioural patterns we detect in the Spanish asset investment funds market that are not coherent with the EMH such as the inconsistent and low correlation between market efficiency and success, or the existence of a percentage of individual successful managers that cannot be discarded as skilled ones, that lead us to consider a more behavioural approach as the Adaptive Market Hypothesis AMH Lo (2004) as a better way to explain managerial behaviour in investment funds markets.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

REFERENCES

- Brealey, R.A. & Myers, S.C. 2003, Principles of Corporate Finance. (New York: McGraw-hill)
- Briec, W; Kerstens, K. & Jokung, O., 2007, Mean-Variance-Skewness Portfolio performance gauging: A general shortage function and dual approach, Management Science, . 53, 1, 135-149.
- Fama, E.F., 1972, Components of investment performance, Journal of Finance, vol. 27, 383-417
- Fama, E.F., 1991, Efficient capital markets II, Journal of Finance, 46, 5, 1575-1617.
- Jensen, M.C., 1968, The performance of mutual funds in the period 1945-1964, Journal of Finance, 23, 2, 389-416.
- Lo, A.W., 2004, The Adaptive Markets Hypothesis. Market efficiency from an evolutionary perspective, The Journal of Portfolio Management, 30th anniversary issue, 15-29.
- Sharpe, W.F., 1964, Capital asset prices: A theory of market equilibrium under conditions of risk, Journal of Finance, 19, 3, 425-442.
- Sharpe, W.F., 1994, The Sharpe Ratio, Journal of Portfolio Management, 21, 1, 49-58.

LOTTERY JACKPOTS: CASH VALUES, TAXES, AND HUBRIS

Edward A. Dyl
University of Arizona
edyl@eller.arizona.edu

Deborah W. Gregory
University of New England
dgregory@une.edu

Lotteries have existed for thousands of years. In particular, they have frequently been used by governments to finance various state-backed projects. Today, state lotteries such as the Powerball lottery are often presented to voters as a way to pay for better education, provide services for senior citizens, increase retirement benefits for police, firemen, and educators, and undertake assorted other socially beneficial projects that would otherwise require increases in state taxes.

For an individual, buying a lottery ticket seems to be a bad bet because it has a negative expected value in addition to a negative expected net present value. Nonetheless, over 30 million lottery tickets are sold each week for Powerball alone. Are all of these purchasers behaving irrationally? Not necessarily! Economists observe that people frequently make investments that have negative expected values—the purchase of fire or flood insurance and the purchase of lottery tickets are popular examples. Buying insurance means taking a certain loss in exchange for avoiding the tiny probability of a very large loss at some time in the future. Buying a lottery ticket means taking a certain loss today in exchange for the tiny probability of a very large gain at some time in the future. Each of these investments has a negative expected value; otherwise neither insurance companies nor state lotteries would be economically viable.

Over sixty years ago, Friedman and Savage (1948) provided an economic analysis of this phenomenon. They showed how taking a small certain loss (insurance) to avoid a huge and possibly devastating loss and how taking a small certain loss (a lottery ticket) to create the possibility of a huge and life-changing gain can increase a rational person's state of well being and therefore, their utility. Insurance brings more than a financial reimbursement in the event of disaster; it also brings a sense of wellbeing and freedom from fear while awaiting the unlikely disaster. Similarly, although a lottery ticket carries only a minuscule chance of actually winning, it also provides a hope of "winning the lottery" with all the happiness and bliss that the ticketholder chooses to imagine. To paraphrase the title of a book by Charles Clotfeter and Philip Cook on the subject, "state lotteries sell hope."

Both the dreamers and the actual winners of the jackpot in Powerball or any other lottery face an important financial decision: Should they take the cash value – a one-time cash payment, or the annuity – a series of annual payments stretching over 25 or 29 years? From the choices made by actual winners in the past seven years, it would appear to be a simple decision. The majority of winners chose the cash payment regardless of age or socio-economic status.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

This paper takes an analytical approach to evaluating the cash value versus annuity decision. The analysis focuses on the Powerball lottery because it is the most widespread lottery game in the United States. Most of the states that do not have Powerball have another state lottery. Only six states have no state-sponsored lottery. Although we focus on Powerball lotteries, the general approach to analyzing the decision between taking the cash value and taking the annuity that we present is applicable to any lottery.

From a purely rational financial perspective, we show that individuals who win the large Powerball jackpots would be better off from a financial perspective selecting the annuity over the lump sum payment at the time of winning. Yet over 90% of the winners select the lump sum payment. Addressing this seemingly irrational inconsistency, we find that there are both behavioral and neurological reasons why people may select the lump sum payment. Based on cognitive psychology and neurobiology, the optimal strategy for making a rational decision would be to take the entire time given by the lotteries for making the decision on which payout to take. The winner needs to be aware of the possibility of becoming possessed by the archetype of the hero. If this happens, the probability that they will make poor choices about how to spend and invest their winnings is high.

References

- Atkins, Allen B., and Edward A. Dyl, 1995, The Lotto Jackpot: The Lumps Sum Versus the Annuity, *Financial Practice & Education* 5(2), Fall –Winter, 107-111.
- Berns, Gregory S., David Laibson, and George Lowenstein, 2007, Intertemporal choice – toward an Integrative Framework, *TRENDS in Cognitive Science*, 11(11), 482-488.
- Chabris, Christopher F., David Laibson, Carrie L. Morris, Jonathon P. Schuldt, and Dmitry Taubinsky, 2009, The Allocation of Time in Decision-Making, *Journal of the European Economic Association* 7, 2-3.
- Choi, James J., David Laibson, Brigitte C. Madrian, and Andrew Metrick, 2003, Optimal Defaults, *The American Economic Review*, 93(2), 180-185.
- Clotfeter, Charles T., and Philip J. Cook, 1989, *Selling Hope: State Lotteries in America*, Cambridge, MA: Harvard University Press.
- Friedman, Milton, and L.J. Savage, 1948, The Utility Analysis of Choices Involving Risk, *The Journal of Political Economy* 56, 279-304.
- Gulley, O. David, and Frank A. Scott, Jr., 1993, The Demand for Wagering on State Operated Lotto Games, *National Tax Journal* 46(1), 13-22.
- McClure, Samuel N., David I. Laibson, George Lowenstein, Jonathon D. Cohen, 2004, Separate Neural Systems Value Immediate and Delayed Monetary Rewards, *Science*, 306(5695), 503.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

Shapira, Zur, and Itzhak Venezia, 1992, Size and Frequency of Prizes as Determinants of the Demand for Lotteries, *Organizational Behavior and Human Decision Processes* 52 (July), 307-18.

Statman, Meir, 2010, What Investors Really Want, *Financial Analysts Journal*, 66(2), March/April 2010, 8-9

RATIONAL VS. HEURISTIC MOTIVES. WHAT MATTERS WHEN REDEEMING THE PLEDGE?

Kristiano Raccanello
Fundación Universidad de las Américas Puebla

Enrique Reig
Fundación Universidad de las Américas Puebla

Jayant Anand
University of Wisconsin

Adriana Mantilla Anota
Puebla

Pawnbroking activity belongs to the secured loan market. When pawning, the loan obtained corresponds to a fraction of the value of the item pledged at the pawnshop. In Mexico, almost 90% of items pledged are personal or family jewels. The valuation of the collateral may differ between the parties involved in the pawn contract. This is because the borrower, besides the economic value, may feel some attachment to the pledge entailing an affective value, but the loan is a function of the economic value of the pledge only.

The economic perspective acknowledges that decision making, even when including uncertainty, follows rational criteria resulting in a *homo economicus* behavior. However, economic analysis does not consider other motivations and this exclusion is not realistic from a psychological point of view (Kahneman, 2003). Since experimental research shows that an individual's reasoning and behavior are guided by rational and intuitive elements, any analysis that would consider only the former cannot account for situations where the decision has been induced by the latter. That is, from a heuristic perspective, those images that represent affective feelings for a person, guide her/his judgments as well as choices (Finucane, Alhakami, Slovic, & Johnson, 2000). The extant literature demonstrates that individuals are willing to pay a higher amount of money for items that evoke positive feelings. To the extent that a person has more affection for an object, s/he will devote more resources (money and effort) to keep it in her/his possession for to ensure continued enjoyment of benefits derived through its possession or use (Hsee & Kunreuther, 2000). Despite the evidence, it is a fact that economists are still reluctant in including emotion-related variables in their analysis. In this paper we try to fill the gap by modeling the affective value attached by the borrower to the item pledged through rational and heuristic perspectives as follows:

Rational perspective: From the borrower's point of view, it is assumed that the willingness to pay (WTP) in order to retrieve the pledge is equal to the pledge's total value. The value of the item pledged corresponds to the sum of the economic value and the affective value. Accordingly, the "rational" borrower would calculate the affective value, in monetary terms, as the difference between the WTP and the economic value of the pledge.

Heuristic perspective: Under this perspective the borrower's behavior will be guided by intuitive judgment rather than rational choice. We consider that the borrower may indicate whether the item has some non-monetary affective value (henceforth referred to as sentimental value) associated with the feelings it evokes in her/him.

Determining whether rational or heuristic approach is linked to the borrower's underlying motive for decision could help us in sketching out which are the elements that influence choice. The hypothesis of the paper posits that if the emotions evoked guide individual behavior, then the heuristic aspect should be associated with higher likelihood of redeeming the pledge as compared to the rational motive.

The data for the study were obtained through a survey in the city of Puebla during the months of May and June of 2008 from a random sample of 417 borrowers. The selection criterion was to interview only those borrowers who had already completed a pawning process; that is, redeemed or lost at least one pledge. Borrowers were interviewed in person and provided information about: socio-economic variables, financial literacy, pawning process and their WTP to redeem the pledge through the closed-ended iterative bidding method. The amount lent by the pawnshop at the beginning of the contract was used as the starting value in applying the iterative bidding method.

On calculating the affective value, we realized that they were negative for most of the sample. Accordingly, as an attempt to analyze whether the results were associated with lack of income or financial literacy, we established a corollary hypothesis: low income and low levels of financial literacy are associated with lower affective value related to the pledge. This was because a low WTP could be driven by low income levels or lack knowledge about the financial cost charged by the pawnshop. Given the nature of the data, we estimated a tobit model with instrumental variables to test this hypothesis.

The tobit model's second step estimates indicate that affective value is associated with the household and borrower's characteristics. Contrary to expectations, low levels of household income and financial education of the borrower are associated with a *higher* affective value. Also, in accordance with our primary hypothesis, a greater WTP to redeem the pledge is associated with a higher affective value. In this model, heuristic feelings toward the pledge were not significant in explaining the affective value.

Then, we addressed the main hypothesis: through the heuristic approach, the repossession likelihood is higher for those items pledged that evoke emotions of attachment for the borrower.

The dprobit model's results indicate that sentimental value leads to a greater likelihood of redeeming the pledge (between 6.2 and 7%). Moreover, affective value is not significant, irrespective of the percentage of the economic value of the pledge lent by the pawnshop. Our estimations show that besides economic variables related to the outcome of the pawning process (redeem/lose), the individual's behavior would be guided by heuristic aspects. Based on the

above estimates heuristic but not “rational” motivation, would influence the results of the pawning process.

Even when one of the limitations of the paper can be traced back to the implicit assumption that borrowers can separate pledge’s affective and economic value, applying alternative modeling would be a natural extension of this work. Our analysis supports that the WTP to redeem the pledge is associated with the affective value although the pledge’s repossession likelihood increases in the presence of sentimental value. This result supports the importance of heuristics to explain an individual’s behavior.

JEL Classification: D81, G29

Keywords: affect heuristic, affective value, rational, pawnbroking

Detailed abstract:

**THE IMPACT OF UNCERTAINTY-INDUCED PSYCHOLOGICAL DISCOMFORT ON
CHOICE PREFERENCE: TESTING A NOVEL THEORY OF DECISION MAKING
UNDER UNCERTAINTY**

**William P. Neace
University of Hartford**

Kate Deer

Jordan Barnard

Research in mainstream economics and the psychology of rational decision-making examines choice from a largely consequentialist perspective using variants of the Expected Utility model. Such models either ignore affect in decision-making, or treat it as another dimension upon which decision-makers evaluate its future utility. Recent psychological research indicates that affect plays an important role in decision-making, and has led to the development of nonconsequentialist theories of choice. Though some findings suggest that uncertainty can be a source of negative affect in decision-making, no studies have directly examined the link between uncertainty, negative affective arousal, and its impact on the subsequent decision-making process. This study represents the first empirical evaluation of a novel theoretical treatment of decision-making under uncertainty/risk. It tests two fundamental assumptions: uncertainty produces increased psychological discomfort relative to certainty, and such discomfort creates the need for uncertainty reduction. Findings indicate that uncertainty in a decision problem produces increased physiological arousal that is experienced as negative, increased importance for information that would reduce uncertainty, and decreased preference for choosing the more risky of two choice options. These results suggest a process by which decision-makers exhibit risk averse and avoidant choice behavior.

DECISION MAKING AND RISK AVERSION IN THE CASH CAB

Richard T. Bliss

Associate Professor of Finance, Babson College

blissr@babson.edu

Mark E. Potter

Associate Professor of Finance, Babson College

potterma@babson.edu

Christopher Schwarz^[1]

Assistant Professor of Finance, University of California, Irvine

cschwarz@uci.edu

PRELIMINARY – DO NOT QUOTE WITHOUT PERMISSION OF THE AUTHORS

We use the Emmy Award-winning game show *Cash Cab* to study decision-making in a risky framework. This is a unique environment because, unlike other studies on risk-aversion, players participate individually or in teams varying in number from two to five. This creates a natural laboratory to measure performance and risk aversion conditional upon the size of the team as well as the characteristics of the team members. Our results are striking. Teams are much more likely to complete overall tasks successfully. There are noted differences conditional on gender makeup of the groups. Most importantly, risk aversion estimates indicate that when participants are part of a group, they focus on the overall size of the dollar amounts that are “at risk”, rather than their “slice of the pie”. The implications of our results span a number of areas where groups are part of the financial decision-making process, including investment analysis and portfolio management, corporate governance, and corporate finance.

^[1] The authors would like to thank Tom Cohen of Lion Television and Christine Murphy for her assistance with data entry. All remaining errors are our own. We would also like to thank Peng Peng for his research assistance.

THE GLOBAL FINANCIAL CRISIS -- A BEHAVIORAL VIEW

Robert Grosse
EGADE Business School
rgrosse@itesm.mx

This paper explores the problem of the global financial crisis of 2008-9, using a behavioral perspective to examine in some detail the issues of market and institutional failure. These failures are evident in the inadequate oversight/regulation provided by US financial market regulators, as well as the inability of financial market participants to adequately judge and assign risk measures to key financial instruments. The paper shows how specific adjustments in government policy (dealing with market structural imperfections) and company strategy (dealing with risk management) can respond to the key elements of the crisis. It also points out the future financial crises cannot be avoided, so that mitigation is the only remedy to deal with such phenomena.

INVESTOR PERCEPTIONS IN RESPONSE TO FINANCIAL CRISIS: EVIDENCE FROM EMERGING MARKETS

Yongli Luo
University of Texas—Pan American
yongliluo728@gmail.com

This paper investigates investor perceptions in response to financial crisis in emerging markets. The investor perceptions are measured by resident capital outflow with respect to domestic economic fundamentals and political uncertainties. Using panel data for 42 nations during 1995--1998, I find that investor perceptions have switched from a mixed pattern to a chaotic pattern, indicating investor behaves irrationally when the financial crisis happened in emerging markets. Specifically, prior to financial crisis, the fixed effects of international trade, inflation and corruption on hot money flow are significant; however, after financial crisis, none of these explanatory variables has significant within effects. Finally, I attribute this pattern shift to the causes of irrational investor sentiments rather than economic fundamentals or political structure changes.

Key Words: investor perception, hot money, emerging market, financial crisis, panel data.

MARKET IMPACTS OF LTCM: AN ANALYSIS USING STATE PRICE DISTRIBUTIONS

Merlyn Foo
Althabasca University

Edwin H. Neave
Queen's University

For the past two decades, events on the world stage and particularly in the United States have serious implications for the operations of financial markets. In this study, we will attempt to provide some insights into information dispersion before and after one particular market event: the collapse of Long Term Capital Management (LTCM) in August 1998. A study of LTCM collapse's effects on the markets will yield insights into the resolution of information uncertainties in the financial markets. We estimated state prices and state price densities using Claims-based asset pricing (a la Ross (2000)). We then used our results to gauge investor sentiments three months before and three months after August 1998. We also used two new measures of the level of pessimism in the market: skewness of the state price distributions and the percentages of discount states (with state price densities greater than one). Our results clearly indicate that the call markets sustained heavier impacts from this event when compared to the put markets. As well, we show that information leakage occurred earlier in the S&P 500 Index when compared to the NASDAQ 100 Index market. Our results also show that the LTCM event was closely related to and was probably precipitated by the Russian Currency Crisis.

Keywords: state price distributions, behavioural finance, Long-Term Capital Management

DYNAMIC INTERACTIONS BETWEEN RATIONAL-IRRATIONAL SENTIMENTS AND STOCK RETURNS IN EMERGING STOCK MARKETS: EVIDENCE FROM TURKEY

**S. Gulfem Ozturk-Bayram^{a,*}
Gokce A. Soydemir¹⁶**

This study investigates the dynamic relationship between rational and irrational consumer-business sentiments and stock returns in emerging stock markets. Study focuses on Turkey for evidence. Previous literature mostly treats investor sentiment as being fully irrational. However, a recent study by Verma et al. (2008) demonstrates that the investor sentiment could be explained by both rational and irrational risk factors. Following their methodology, we divide consumer and business sentiments into two components: rational and irrational sentiments. Then, we investigate the dynamic interactions and the impact of the sentiment components on stock returns using Vector Auto Regression (VAR) models at both consumer and business levels. We use monthly time series data for the period of 2003-2010. ISE-100 Index is used to calculate the return series as this index represents 90% of the market capitalization in the Istanbul Stock Exchange and fundamental economic variables consist of business conditions, economic risk premium, country risk, exchange rate risk, country growth rate, inflation rate, and terms of trade. The results show that ISE-100 index returns are positively and significantly affected by the rational sentiments of both consumers and businesses. However, irrational sentiments do not have any significant impact on the ISE-100 returns. Moreover, the impulse responses of rational sentiments of consumers and businesses to one-time standard deviation increase in the ISE-100 returns are positive and significant for the first three months and it becomes insignificant thereafter. On the contrary, the impulse responses of irrational sentiments of consumers and businesses to one-time standard deviation increase in the ISE-100 returns remains insignificant. In summary, significant bidirectional relationship between returns and rational component of consumer and business sentiments is confirmed and the results do not show any significant differences between consumer and business levels. The findings are consistent with study by Calafiore et al. (2009), which focuses on another emerging market: Brazil. Their study also confirms significant bidirectional relationship between returns and rational components of consumer and business sentiments. They find no significant effect of irrational components on Brazilian stock returns. Both our results and that of Calafiore et al. (2009) are partially consistent with Verma et al. (2008). Contrary to Verma et al. (2008), we do not find any significant effect in favor of irrational sentiments. This disparity could be attributed to the differences between developed and emerging stock markets as Verma et al.(2008) focus on US stock markets. In contrast to developed stock markets, institutional investors play more major role in shaping emerging stock market movements than individual investors. Institutional investors are known to utilize more technical and analytical analysis in their decision- making processes. We believe as the number of individual investors increase and they become more active participants, irrational

^a College of Business Administration, University of Texas Pan American, Edinburg, TX 78541, USA

* Corresponding author: Email: sgozturk@yahoo.com

*Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and
Economics, September 15-17, 2010, Chicago, Illinois*

components of sentiments in emerging stock markets may become significant following the trails of their developed counterparts.

THE SURVEY OF DISPOSITION EFFECT ON FUND FLOWS AND INVESTMENT COMPANIES PERFORMANCE IN TEHRAN STOCK MARKET

Mahmood Yahyazadehfar (PHD)
University of Mazandaran

Shahabeddin Shams (PHD)
University of Mazandaran

Abbas Emami (MBA)

In this paper disposition effect, selling winners and holding losers, in Tehran stock exchange (TSE) investment companies and its effect on these companies' fund flows and performance using Odean model has been investigated. The statistical techniques have been used including t-student test, Ordinary Least Squares (OLS) method. In order to test the heteroskedasticity, White test is applied and also weighted Least Squares (WLS) has been used to correct the problem using Eviews software. Besides, Generalized Least Squares (GLS) method is used for autocorrelation residual and first degree Moving average MA (1) is used for autocorrelation correction.

The findings show that about nineteen percent of all investment companies in TSE tend to indicate a behavior based on disposition effect. Other findings show that the behavioral based on disposition effect of investment companies' has negative effect on these companies' performance. Furthermore; the result shows a direct and significant relationship between investment companies' dispositional behavior and fund flows. The result denotes that disposition behavior has negatively significant effect on fund flow with high performance companies and there is a direct relation between low performance and weak fund flows.

Keywords: Disposition Effect, Investment Companies, Performance, Fund Flow, Tehran Stock Exchange.

THE RELATIONSHIP BETWEEN MARKET SENTIMENT INDEX AND BRAZILIAN STOCK RATES OF RETURN: A GMM PANEL DATA ANALYSIS

Claudia Yoshinaga
Fundação Getulio Vargas

Francisco Henrique Figueiredo de Castro Junior
Universidade de São Paulo

In classical finance theory investor sentiment is not considered an important factor in asset pricing. Although the existence of investor sentiment is not denied, theories assume that in competitive markets quasi-rational behavior is quickly offset by rational agents. The main goal of this article is to investigate the relationship between investor sentiment and future stock rates of return. We propose a methodology to create a sentiment index specifically to the Brazilian market using principal components analysis. We estimate a pricing model including this variable for the period comprehending 1999 to 2008. Considering a negotiability restriction to assure representative and sufficient observations to validate a pricing model, the sample consisted of non-financial firms listed at BM\FBOVESPA. The pricing model was estimated by GMM considering the sentiment index, systematic risk (beta) and factors as firm size, market-to-book ratio, leverage and return predictability measured by momentum or revenues growth. Different estimation procedures were employed in order to find parameters which are less affected by unobserved heterogeneity, outliers or endogeneity. Results suggest that sentiment is a relevant factor in Brazilian asset pricing models. A negative and statistically significant relationship between the sentiment index and stock returns was consistently found in different specifications. These findings suggest the existence of a reversion pattern in stock returns, meaning that after a positive sentiment period, the impact on subsequent stock returns is negative and vice-versa, *ceteris paribus*.

Keywords: Sentiment Index, Pricing Model, GMM Panel Data

THE EXAMINATION OF EXISTENCE OF HERD BEHAVIOR IN TEHRAN STOCK EXCHANGE

Majid Khoshsirat
University of Tehran, Tehran, Iran.
majid.khoshsirat@gmail.com

Mahmoud Salari
University of Tehran, Tehran, Iran.
Salari_mahmoud@yahoo.com

Repeated allegations of tendency of the Tehran stock exchange's participants to follow herding behavior especially in the stress market conditions and meanwhile, scant empirical researches available in this regard, have motivated us to examine existence of herd formation in Tehran stock exchange at aggregate market level as well as within 9 major industries we have grouped in this paper, during an eight-years period from April 10, 2001 through July 11, 2009. The primary findings show that there is no empirical evidence of herd formation in the whole market as well as within industries except for two ones: Automobile and Minerals. Then we run complementary tests to determine if six special periods of stress conditions could affect our findings regarding herding existence, and have seen none of them have had such a significant effect. All of them except for the UN Security Council first resolution accompanying a package of sanctions against Iran's nuclear activities (that has significant negative impact on return dispersion measure) have either no significant impact on the dispersion measure or positive contribution to it, to wit consistent with rational pricing theory axioms. Generally and surprisingly the findings indicate the exchange's participants have been acting rationally regarding the high-profile topic studied in this paper.

References

- [1] Barberis, Nicholas., and Richard Thaler, 2003. *A survey of behavioral finance*. (*Handbook of the Economics of Finance*, Edited by G.M. Constantinides, M. Harris and R. Stulz)
- [2] Barberis, Nicholas., and Andrei Shleifer, and Robert Vishny, 1998, A model of investor sentiment *Journal of Financial Economics* 49, 307-343.
- [3] Bloomfield, Robert., and Jeffrey Hales, 2002. Experimental evidence of regime-shifting beliefs, *Journal of Financial Economics* 65, 397-414.
- [4] Breuer, Wolfgang., and Achim Perst, 2007. Retail banking and behavioral financial engineering: The case of structured products, *Journal of Banking & Finance* 31, 827-844.
- [5] Brown, Nerissa C., 2004, Herd behavior in voluntary disclosure decisions: An examination of capital expenditure, *Journal of Accounting and Economics* 38, 3-50.
- [6] Cajueiro, Daniel.O., and Benjamin M. Tabak, , 2009, Multifractality and herding behavior in the Japanese Stock market. *Chaos, Solitons and Fractals* 40, 497-504
- [7] Chan ,Wesley S., and Frankel Richard, and Sri P. Kothari, 2004, Testing behavioral finance theories using trends and consistency in financial performance, *Journal of Accounting and Economics* 38, 3-50.

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

- [8] De Grauwe, Paul, and Marianna Grimaldi, 2006, The Exchange Rate in a Behavioral Finance Framework, Journal of International Economics 72 , 265-270.
- [9] De Grauwe, Paul, and Marianna Grimaldi, 2006, The exchange rate in a behavioral finance framework, International Review of Economics and Finance 16 , 300-303.
- [10] Demirer, Riza., and Ali M. Kutan, 2006, Does herding behavior exist in Chinese stock markets?, Journal of International financial markets, institutions & money 16, 123–142
- [11] Ding, David K., and Thomas H. McInish, and Udomsak Wongchoti, 2008, Behavioral explanations of trading volume and short-horizon price patterns: An investigation of seven Asia-Pacific markets, Pacific-Basin Finance Journal 16, 183-203.
- [12] Fama, Eugene F., 1998, Market efficiency, long-term returns, and behavioral Finance, Journal of Financial Economics 49, 283-306.
- [13] Frijns, Bart., and Esther Koellen, and Thorsten Lehnert, 2008, On the determinants of portfolio choice, Journal of Economic Behavior & Organization 66, 373-386.
- [14] Eslami bidgoli, Saeed., and Hassan Ghalibaf Asl, and Mona Hajialiasghar, 2008, A Model for Overreaction to EPS Shocks in the Stock Markets. Conference Proceedings The 2008 International Conference of the System Dynamics Society. Athens, Greece
- [15] Henker, Julia., Thomas Henker, 2006, Do investors herd intraday in Australian equities?, International Journal of Managerial Finance 2, 196-219.
- [16] Hibbert, Ann M., and Robert T. Daigler, and Brice Dupoyet, 2008, A behavioral explanation for the negative asymmetric return–volatility relation, Journal of Banking & Finance 32, 2254-2266
- [17] Kim, Kenneth A., and John R. Nofsinger, 2008, Behavioral finance in Asia. Pacific-Basin Finance Journal 16, 1-7.
- [18] Nikbakht, Mohammad R., and Mahdi Moradi, 2005, Examination of investors' overreaction in Tehran stock exchange. Journal of Accounting and Auditing Researches 40, 97-122.
- [19] Thaler, Richard H., Advances in Behavioral Finance II, 2007, Journal of Socio-Economics 36, 672-674.
- [20] Ritter, Jay R., 2003, Behavioral finance. Pacific-Basin Finance Journal 11, 429–437
- [21] Tabasi, Hamed, 2010. Studying market sudden movements using catastrophe theory run for Tehran Exchange data, University of Tehran Press.
- [22] Tversky, Amos., and Daniel Kahneman, 1992, Advances in Prospect Theory: Cumulative Representation of Uncertainty, Journal of Risk and Uncertainty 5, 297-323.
- [23] Tan, Lin ., and Thomas C. Chiang, and Joseph R. Mason, and Edward Nelling, 2008, Herding behavior in Chinese stock markets: An examination of A and B shares, Pacific-Basin Finance Journal 16, 61–77.
- [24] Westerhoff, Frank H., and Roberto Dieci, 2006, The effectiveness of Keynes–Tobin transaction taxes when heterogeneous agents can trade in different markets: A behavioral finance approach, Journal of Economic Dynamics & Control 30, 293-322.
- [25] Zhou, Rhea T., and Rose Neng Lai, 2008, Herding and positive feedback trading on property stocks. Journal of Property Investment & Finance. 26, 110-131.

The 2010 Annual Meeting of the Academy of Behavioral Finance & Economics

Program- 2010

September 15-17, 2010

**DePaul University- Conference Center
Chicago, Illinois, USA**

2010 Conference Venue:

Please note that all the conference functions take place at DePaul University Conference Center located at 1 E. Jackson Street, 8th Floor, DePaul University, Chicago, IL 60604. Please see our web site for more details. Assigned room for each session/function will be listed right after the listed time for that session/function.

Wednesday Program, September 15, 2010

4:00-6:00 PM:

Reception, Networking, Conference Package Pick up, and Registration at DePaul University Conference Center located at 1 E. Jackson Street, 8th Floor, DePaul University, Chicago, IL 6060

Thursday Program, September 16, 2010

Morning Sessions	<u>Track A</u> Rooms TBA	<u>Track B</u> Rooms TBA
7:30-8:30 Registration and Breakfast	Registration and Breakfast	Registration and Breakfast
8:30 to 8:45 Welcome and Overview	Welcome and Overview Yazdipour, Fatemi, Petty, Nofsinger	Welcome and Overview Yazdipour, Fatemi, Petty, Nofsinger
8:45 to 10:15 <u>Session A-1: Individuals</u> <u>Session B-1: Executives and Decisions</u>	<p><u>Session Chair:</u> Pamela Moulton Cornell University</p> <p>Metanoia and the Market Phil Maymin, NYU-Polytechnic Institute <i>Discussant:</i> Robert Durand</p> <p>Testing Alternative Theories of Financial Decision Making: A Survey Study with Lottery Bonds Patrick Roger, Strasbourg University <i>Discussant:</i> Oliver Schnusenberg</p> <p>Stages in the Life of the Weekend Effect: Evidence of Behavioral Biases? Charles Mossman, University of Manitoba Dennis Olson, American university of Sharjah Nan-Ting Chou, University of Louisville <i>Discussant:</i> Xiankui Hu</p>	<p><u>Session B-1: Executives and Decisions</u></p> <p><u>Session Chair:</u> David McLean University of Alberta</p> <p>Executive Compensation: An Examination of the Influence of TMT Compensation on Risk-Adjusted Performance William Kline, Temple University <i>Discussant:</i> Ajay Kongera</p> <p>Jump Bidding in Takeover Auctions: An Experimental Study Yuri Khoroshilov, University of Ottawa <i>Discussant:</i> Bei Zhang</p> <p>Investor Sentiment and Real Investment R.David McLean, University of Alberta Mengxin Zhao, University of Alberta <i>Discussant:</i> Vanessa Holmes</p>
10:15-10:30	Refreshment Break	Refreshment Break

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

10:30 to noon	<p><u>Session A-2: Microstructure and Microfinance</u></p> <p><u>Session Chair:</u> Evgenia Golubeva University of Oklahoma</p> <p><u>Session B-2: Real Estate</u></p> <p>The Role of Market Design in Alleviating Attention Constraints Pamela Moulton, Cornell University Bidisha Chakrabarty, Saint Louis University <i>Discussant:</i> Phil Maymin</p> <p>Convertible Debt Demographics Gina Nicolosi, Northern Illinois University <i>Discussant:</i> Patrick Roger</p> <p>Market Failure in U.S. Microfinance: How Behavioral Finance and Economics Inform Understanding Caroline Glackin, Shepherd University <i>Discussant:</i> Lee Dunham</p>	<p><u>Session B-2: Real Estate</u></p> <p><u>Session Chair:</u> Ann Marie Hibbert West Virginia University</p> <p>Loss Aversion and Anchoring in Commercial Real Estate Pricing: Empirical Evidence and Price Index Implications Sheharyar Bokhari, MIT-Center for Real Estate David Geltner, MIT-Center for Real Estate <i>Discussant:</i> Sheng Wang</p> <p>Can Real Estate Agents Impact Perceived Property Values? Michael Seiler, Old Dominion University Mark Lane, Hawaii Pacific University Vicky L. Seiler, John Hopkins University David M. Harrison, Rawls college of Business <i>Discussant:</i> Sheharyar Bokhari</p> <p>Speculative Behaviors and Mortgage Bubbles in the Real Estate Markets of China Sheng Wang, CUNY- The Graduate Center <i>Discussant:</i> Michael Seiler</p>
---------------	---	--

Luncheon and Keynote Address

Afternoon Sessions	Room 1	Room 2
Noon to 1:30	<p>Lunch and Keynote Address</p> <p><u>Keynote Address:</u> Werner DeBondt DePaul University</p>	<p>Lunch and Keynote Address</p> <p><u>Keynote Address:</u> Werner DeBondt DePaul University</p>
1:30 to 1:45	Short Break	Short Break

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

<p>1:45 to 3:00</p> <p><u>Session A-3: Getting into the Market</u></p> <p><u>Session B-3: Information</u></p>	<p><u>Session A-3: Getting Into the Market</u></p> <p><u>Session Chair:</u> Charles Mossman University of Manitoba</p> <p>The Demographics of Non-Participation Ann Marie Hibbert, West Virginia University Edward R. Lawrence, Florida International University Arun J. Prakash, Florida International University</p> <p>Students and Retirement Savings Predictors Oliver Schnusenberg, University of North Florida Chris Kalin, Wachovia Bank</p> <p>Personality Robert Durand University of Western Australia</p> <p>Building a Better Mousetrap: The Psychology of Dollar Cost Averaging Lee Dunham, Creighton University Geoff C. Friesen, University of Nebraska-Lincoln</p>	<p><u>Session B-3: Information</u></p> <p><u>Session Chair:</u> Fabio Mattos University of Manitoba</p> <p>A Systematic Investors' Overreaction to Growth Consistency in Quarterly Accounting-Based Performance Measures Abdulaziz Alwathainani, York University</p> <p>Content of Stock Spam Emails and Market Reactions Xiankui Hu, Arkansas State University Thomas McInish, Fogelman College of Business and Economics</p> <p>Evidence on Investor Behavior from Aggregate Stock Mutual Fund Flows Evgenia Golubeva, University of Oklahoma</p> <p>Heterogeneous Ambiguity Aversion: a field experiment among small-scale stock investors in China Bei Zhang, Shanghai University of Finance and Economics</p>
<p>3:00 to 3:15</p>	<p>Refreshment Break</p>	<p>Refreshment Break</p>

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

<p>3:15 to 4:15</p> <p><u>Session A-4:</u> Corporate and Information Economics</p> <p><u>Session B-4:</u> Futures, Exchange Rates and Commodity Markets</p>	<p><u>Session A-4:</u> Corporate and Information Economics</p> <p><u>Session Chair:</u> William Kline Temple University</p> <p>Can Real Options Unbias Acquisition Decisions? Joris Kil, Erasmus University Rotterdam</p> <p>R&D Intensity, Capital Structure and Managerial Behavior Ajay Kongera, Old Dominion University Mohamed M. Rahoui, Old Dominion University</p> <p>Contextual Ambiguity: Experiment and Evidence Safa Gritli, Yokohama National University</p>	<p><u>Session B-4:</u> Futures, Exchange Rates and Commodity Markets</p> <p><u>Session Chair:</u> Abdulaziz Alwathainani York University</p> <p>Disposition Effect in Futures commodity Market: Evidence on Behavioral Factors from Trade Simulation Mouze Kebede, Texas Tech University</p> <p>Decision Making Process in Grain Marketing: A Study in the Canadian Market Fabio Mattos, University of Manitoba Stefanie Fryza, University of Manitoba</p> <p>Investor Sentiment and Exchange Rates from Global Perspective Fang Fang, University of Texas-Pan American Lifeng Li, University of Texas-Pan American</p>
<p>4:15 to 4:30</p>	<p>Short Break</p>	<p>Short Break</p>

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

<p>4:30 to 5:30</p> <p>Session A-5: Special Session about SSRN</p> <p>Session B-5: Bias and Investors</p>	<p>Session A-5: Special Session about SSRN</p> <p>Facilitating Research with the Social Science Research Network—An Editor’s Perspective Victor Ricciardi, SSRN editor</p>	<p>Session B-5: Bias and Investors</p> <p>Session Chair: Yuri Khoroshilov University of Ottawa</p> <p>Patriotic Name Bias and Stock Returns Marek Jochec, ISCTE Business School Evangelos Benos, ISCTE Business School</p> <p>Momentum and Behavioral Finance Ding Du, Northern Arizona University</p> <p>Do All Individual Investors Lose by Trading? Shi Yongdong, Dongbei University of Finance and Economics Zhuwei Li, Dongbei University of Finance and Economics</p>
---	--	--

Friday Program, September 17, 2010

Morning Sessions	Track A Rooms TBA	Track B Rooms TBA
7:30 to 8:30 Breakfast	Breakfast	Breakfast
8:30 to 8:45	Welcome for Day 2 Fatemi, Petty, Nofsinger	Welcome for Day 2 Fatemi, Petty, Nofsinger

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

<p>8:45 to 10:15</p> <p><u>Session A-6:</u> Risk Premiums</p> <p><u>Session B-6:</u> Institutional Investors</p>	<p><u>Session A-6: Risk Premiums</u></p> <p><u>Session Chair:</u> Nadja Guenster Maastricht University</p> <p>Problems in Measuring Contrarian Performance: A Reconciliation of Results from Alternative Methodologies Steven Jones, Indiana University <i>Discussant:</i> Cristiana Cerqueira Leal</p> <p>Pricing of Skewness in Emerging Markets Dmitry Shapiro, University of North Carolina-Charlotte Xinde Zhang, University of North Carolina <i>Discussant:</i> Merlyn Foo</p> <p>Liquidity Risk Premium Puzzle and Possible Explanations Shu Tian, University of New Orleans Peihwang Wei, University of New Orleans <i>Discussant:</i> Steve Foerster</p>	<p><u>Session B-6: Institutional Investors</u></p> <p><u>Session Chair:</u> Deborah Gregory University of Arizona</p> <p>Do Institutions Pay to Play? Turnover of Institutional Ownership and Stock Returns Valentin Dimitrov, Rutgers University Vladimir A. Gatchev, University of Central Florida <i>Discussant:</i> Michel Blanchard</p> <p>Investment Philosophies and Investment Beliefs Determine Investment Outcomes Andrew Mason, University of Surrey <i>Discussant:</i> Richard Bliss</p> <p>Behavioral Aspects of Investment Fund's Markets: Are Good Managers Lucky or Skilled? Silvia BouYsàs, Universitat Autònoma de Barcelona <i>Discussant:</i> Marek Jochec</p>
<p>10:15-10:30</p>	<p>Refreshment Break</p>	<p>Refreshment Break</p>

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

<p>10:30 to noon</p> <p><u>Session A-7:</u> Bubbles and Cycles</p> <p><u>Session B-7:</u> Economic Decision Events</p>	<p><u>Session A-7: Bubbles and Cycles</u></p> <p><u>Session Chair:</u> Ding Du Northern Arizona University</p> <p>Riding Bubbles Nadja Guenster, Maastricht University <i>Discussant:</i> Silvia BouYsàs</p> <p>How Does Investor Sentiment Affect Stock Market Crises? Evidence from Panel Data Mohmed Zouaoui, University of Franche-Comté Geneviève Nouyrigat, University of Grenoble Francisca Beer, California State University of San Bernardino <i>Discussant:</i> Tomasz Piotr Wisniewski</p> <p>Investor Behavior and Economic Cycle: The Impact of Human Biases and Cognitive Limitations on Economic Booms and Busts Beryl Chang, European School of Economics <i>Discussant:</i> Henrique Castro</p>	<p><u>Session B-7: Economic Decision Events</u></p> <p><u>Session Chair:</u> Robert Grosse EGADE Business School</p> <p>Powerball Jackpots: Cash Values, Taxes, and Hubris Deborah Gregory, University of Arizona</p> <p>Rational vs. Heuristic: What Matters When Redeeming the Pledge? Kristiano Raccanello, Fundación Universidad de las Américas Puebla Enrique Reig, Fundación Universidad de las Américas Puebla Jayant Anand, University of Wisconsin Adriana Mantilla Anotá, Puebla</p> <p>The Impact of Uncertainty-Induced Psychological Discomfort on Choice Preference: Testing a Novel Theory of Decision Making Under Uncertainty Bill Neace, University of Hartford</p> <p>Group Decision Making and Risk Aversion in the Cash Cab Richard Bliss, Babson College Mark E. Potter, Babson College Christopher Schwarz, University of California, Irvine</p>
--	---	--

<p>Noon to 2:00 Session A-8: Lunch and Joint Session</p> <p>Session B-8: Lunch and Joint Session</p>	<p><u>Session A-8:</u> Working Lunch and Joint Session</p> <p><u>Session Chair:</u> Bill Neace University of Harford</p> <p>Fairness Norms and Self-interest in Venture Capital/Entrepreneur Contracting and Performance Richard Fairchild, University of Bath</p> <p>What Drives Private Equity Firm Certification at Initial Public Offering? Donald Ross, Macquarie University</p> <p>Entrepreneurial Overconfidence, Outside Equity and Successful Exits Craig Everett, Purdue University</p> <p>Market-wide Sentiment, Underwriter Quality, and IPO Pricing Ning (Tony) Tang, Wilfrid Laurier University Cynthia J. Campbell, Iowa State University Yan Du, Barclays Global Investor S.Ghon Rhee, University of Hawaii</p>	<p><u>Session B-8:</u> Working Lunch and Joint Session</p> <p><u>Session Chair:</u> Bill Neace University of Harford</p> <p>Fairness Norms and Self-interest in Venture Capital/Entrepreneur Contracting and Performance Richard Fairchild, University of Bath</p> <p>What Drives Private Equity Firm Certification at Initial Public Offering? Donald Ross, Macquarie University</p> <p>Entrepreneurial Overconfidence, Outside Equity and Successful Exits Craig Everett, Purdue University</p> <p>Market-wide Sentiment, Underwriter Quality, and IPO Pricing Ning (Tony) Tang, Wilfrid Laurier University Cynthia J. Campbell, Iowa State University Yan Du, Barclays Global Investor S.Ghon Rhee, University of Hawaii</p>
<p>2:00 to 2:15</p>	<p>Short Break</p>	<p>Short Break</p>

Proceedings of the 2010 Annual Meeting of the Academy of Behavioral Finance and Economics, September 15-17, 2010, Chicago, Illinois

<p>2:15 to 3:45</p> <p><u>Session A-9:</u> Individual Stocks and Investors</p> <p><u>Session B-9:</u> Crisis</p>	<p><u>Session A-9: Individual Stocks and Investors</u></p> <p><u>Session Chair:</u> Richard Fairchild University of Bath</p> <p>Individual Investors' Additional Purchase and Repurchase of Stocks Previously sold Cristiana Cerqueira Leal, University of Minho Manuel J. Rocha Armada, University of Minho <i>Discussant:</i> Valentin Dimitrov</p> <p>Performances of Amateurs' Trades on a Public Internet Site: a Case of a Stock Exchange Contest Michel Blanchard, Université Paris Dauphine Philippe Bernard, University of Paris Dauphine <i>Discussant:</i> Kristiano Raccanello</p> <p>Double Then Nothing: Why Individual Stock Investments Disappoint Steve Foerster, University of Western Ontario <i>Discussant:</i> Steven Jones</p>	<p><u>Session B-9: Crisis</u></p> <p><u>Session Chair:</u> Donald Ross Macquarie University</p> <p>The Global Financial Crisis - A Behavioral View Robert Grosse, EGADE Business School <i>Discussant:</i> Francisca Beer</p> <p>Investor Perceptions in Response to Financial Crisis: Evidence from Emerging Markets Yongli Luo, University of Texas – Pan American <i>Discussant:</i> Andrew Mason</p> <p>Market Impacts of LTCM: An Analysis Using State Price Distributions Merlyn Foo, Athabasca University Edwin H. Neave, Queen's University <i>Discussant:</i> Dmitry Shapiro</p>
<p>3:45 to 4:00</p>	<p>Refreshment Break</p>	<p>Refreshment Break</p>

<p>4:00 to 5:15</p> <p><u>Session A-10:</u> Sentiment</p> <p><u>Session B-10:</u> Emerging Markets</p>	<p><u>Session A-10: Sentiment</u></p> <p><u>Session Chair:</u> Ning (Tony) Tang Wilfrid Laurier University</p> <p>Why Bad News is Good News: Market Forecasts Based on Investor Reaction to Unexpected News Biff Robillard, Bannerstone Capital Seth Bender</p> <p>Agent Sentiment and Stock Market Predictability Chandler Lutz, University of California – Riverside</p> <p>The Impact of Hurricanes on Investor Sentiment and Stock Market Returns Daniel Perez, University of Texas - Pan American Daniel Huerta, University of Texas-Pan American</p> <p>Fast Profits: Investor Sentiment and Stock Returns during Ramadan Tomasz Piotr Wisniewski, University of Leicester</p>	<p><u>Session B-10: Emerging Markets</u></p> <p><u>Session Chair:</u> Beryl Chang European School of Economics</p> <p>Dynamic Interactions between Rational-Irrational Sentiments and Stock Returns in Emerging Stock Markets: Evidence from Turkey Gulfem Ozturk, University of Texas - Pan American Gökçe A. Soydemir, University of Texas Pan American</p> <p>The Survey of Disposition Effect on Fund flows and Investment Companies Performance in Tehran Stock Market Mahmood Yahyazadehfar, University of Mazandaran Shahabeddin Shams, University of Mazandaran</p> <p>The Relationship between Market Sentiment Index and Brazilian Stock Rates of Return: a GMM Panel Data Analysis Henrique Castro, Universidade de São Paulo Claudia Emiko Yoshinaga, Fundação Getulio Vargas</p> <p>The examination of existence of herd behavior in Tehran stock exchange Mahmoud Salari, University of Tehran Majid Khoshariat, University of Tehran</p>
--	--	---

2010 Program Committee

Program Chair:

John Nofsinger, Ph.D.
Washington State University

Program Committee Members:

James A. Howard, Ph.D.
University of Maryland University College- UMUC

John Nofsinger, Ph.D.
Washington State University

R. (Russell) Yazdipour, Ph.D.
**California State University, and
Academy of Entrepreneurial Finance**

Contact Information:

You may contact us by either:

Email: staff@aobf.org (preferred and faster method) or

Phone: 818-236-2145

Regular Mail:

Academy of Behavioral Finance & Economics

P.O. Box 157

Montrose, CA 91021-0157

ACADEMY OF BEHAVIORAL FINANCE & ECONOMICS

Website: www.aobf.org

Email: staff@aobf.org