Contents

Preface ix

PART I What Is Behavioral Finance? 1
Chapter 1 Introduction 3
Chapter 2 Heuristic-Driven Bias: The First Theme 13
Chapter 3 Frame Dependence: The Second Theme 23
Chapter 4 Inefficient Markets: The Third Theme 33

PART II Prediction 43
Chapter 5 Trying to Predict the Market 45
Chapter 6 Sentimental Journey: The Illusion of Validity 59
Chapter 7 Picking Stocks to Beat the Market 69
Chapter 8 Biased Reactions to Earnings Announcements 91

PART III Individual Investors 105
Chapter 9 “Get-Evenitis”: Riding Losers Too Long 107
Chapter 10 Portfolios, Pyramids, Emotions, and Biases 119
Chapter 11 Retirement Saving:
Myopia and Self-Control 139

PART IV Institutional Investors 157
Chapter 12 Open-Ended Mutual Funds: Misframing,
“Hot Hands,” and Obfuscation Games 159
Chapter 13 Closed-End Funds: What Drives Discounts? 175
Chapter 14 Fixed Income Securities: The Full Measure of Behavioral Phenomena 193

Chapter 15 The Money Management Industry: Framing Effects, Style “Diversification,” and Regret 213

PART V The Interface between Corporate Finance and Investment 225

Chapter 16 Corporate Takeovers and the Winner’s Curse 227

Chapter 17 IPOs: Initial Underpricing, Long-term Underperformance, and “Hot-Issue” Markets 239

Chapter 18 Optimism in Analysts’ Earnings Predictions and Stock Recommendations 257

PART VI Options, Futures, and Foreign Exchange 271

Chapter 19 Options: How They’re Used, How They’re Priced, and How They Reflect Sentiment 273

Chapter 20 Commodity Futures: Orange Juice and Sentiment 289

Chapter 21 Excessive Speculation in Foreign Exchange Markets 299

Final Remarks 309

Notes 311
References 333
Credits 351
Index 359