The Journal of Psychology and Financial Markets
2001, Vol. 2, No. 4, 223–224

RESEARCH ELSEWHERE

Robert A. Olsen

Content Effects on Decision Making

by David Rettinger and Reid Hastie

Organizational Behavior and the Human Decision Process, Vol. 85, No. 2, July 2001, pp. 336–359.

This laboratory study confirms that, contrary to the "Rationalist" position, decision content cannot be treated as merely a "cover story". In particular, decision content influences the type of information processing and hence, the decision outcome. Utilizing a unique experimental design, which allowed for measurement of subjective utilities and control of other important variables, the authors found that different "cover stories" stimulated a differential use of narrative and numerically based decision strategies. They suggest that factors such as greater personal importance of outcome, familiarity, moral relevance, concreteness of information, and duration of outcome lead to greater use of decision strategies involving schemas, mental simulation, analogy and affect.

Accounting Information and Analyst Stock Recommendation Decisions: A Content Analysis Approach

by Gaeton Breton and Richard Taffler

Accounting and Business Research, Vol. 31, No. 2, 2001, pp. 91–100.

This research, utilizing 105 actual research reports covering 434 firms, explores the influence of accounting information, relative to other non financial information, on sell side analyst stock recommendations. The content analysis involved the classification of information contained in the analyst's reports and its correlation with stock recommendation via multinomial logistic regression. The authors find that although discussion of the firm's management and market strategy occupies a small portion of each report, such information is the key determinant of the stock recommendation. Consistent with the findings of other research of analyst recommendations, using case studies, surveys, and regression studies, these researchers also find that quantitative information, especially from the Income statement, dominates the report but is more of a "cover" than a "driver" for the recommendation. Balance sheet information seems little used.

Mental Accounting, Loss Aversion and Individual Stock Returns

by Nicholas Barberis and Ming Huang

Journal of Finance, Vol. 56, No. 4, August 2001, pp. 1247–1295.

In this laboratory study the authors test two alternative market equilibrium models of mental accounting. The results, simulated using real market parameters, suggest that stock price behavior is best explained by a world wherein investor's focus on the return from individual stocks instead of the returns over their portfolios as a whole. The authors suggest that discount rate volatility is the key to the puzzle. In addition, they note that narrow framing by individual investors, relative to institutions, is consistent with market evidence that the stocks most favored by individuals experience greater excess volatility relative to cash flow. The authors conclude that the difficulty of detection, as well as the high cost of being wrong, should keep wide "portfolio" framers from taking advantage of narrow "stock" framers.

Investor Psychology and Asset Pricing

by David Hirshleifer

Journal of Finance, Vol. 56, No. 4, August 2001, pp. 1533–1598.

This descriptive survey article provides an extensive review of theories and empirical evidence dealing with

Robert A. Olsen is Professor Emeritus from California State University, Chico and a Research Fellow with Decision Research in Eugene, Oregon. He holds graduate degrees in Finance from the University of Oregon and the University of Massachusetts. Professor Olsen has business experience as a Financial Analyst and consulting experience with small business start-ups. Professor Olsen's research interests are focused on Risk Perception and Behavioral Finance.

Requests for reprints should be sent to: Robert A. Olsen, Decision Research, 1201 Oak Street, Eugene, OR 97401. Email: rmolsen@qwest.net

the potential influence of psychological influences on security market behavior. This paper was originally presented as an address at the Annual Meeting of The American Finance Association. The author does a fine job of organizing and synthesizing the rapidly expanding body of research now called Behavioral Finance. The principle shortcoming of the article is that most citations come from the more traditional Journals, at the expense of more innovative journals, such as the Financial Analysts Journal, which presented some of earliest work in this field.

When Bad Things Happen to the Endorsers of Good Products

by Therese Louie, Robert Kulik and Robert Jacobson

Marketing Letters, Vol. 12, No. 1, 2001, pp. 13–23.

This piece of Marketing Research is relevant to the issue of the role of affect on security pricing. Previous marketing studies have demonstrated that customer attitude towards a celebrity spokesperson can influence customer perceptions about the quality of a firm's products. This study extends this line of research to the influence of spokesperson "quality" on a firm's stock price behavior. Using standard event methodology, and covering the period 1980 to 1995, the authors find that new negative publicity about a Spokesperson (i.e., being jailed, etc.) has a significant and protracted negative influence on a firm's stock price. However, non-earned negative events relative to the spokesperson (i.e., getting hurt, etc.) tend to significantly raise stock prices.

Cisco and the Kids

by Mark Hirschey

Financial Analysts Journal, Vol. 57, No. 4, July/August, 2001, pp. 48–59.

Author Hirschey compares the performance of the "Nifty Fifty" stocks of the 1970's with the stocks in the Nasdaq 100 Index. He suggests that the "Bubble" in the prices of the Nasdaq stocks was significantly larger than that which occurred in the prices of the Nifty Fifty .In particular he notes that in spite of the approximate 70% drop in the prices of the Nasdaq stocks, their average P/E is still about 2.5 times higher than that of the Nifty Fifty at their peak. The author predicts that the future of the Nasdaq 100 is likely to be poorer than for the Nifty Fifty since, as a group, they tend to be less seasoned firms competing in product markets where market dominance is now more fleeting. He feels that the Nasdaq stocks will perform more like the Nikkei 225.