results indicated five principal risk dimensions; distrust of products/ providers, loss aversion, aversion to price volatility, lack of knowledge or information, and failure of regulation. In general these results are very similar to those obtained from studies of U. S. investors where similar research techniques were utilized. However, a unique finding of this study is the dominant role of "distrust" as a risk factor. More importantly, the authors note that lack of trust appears to play a key role in determining whether return is perceived to be an increasing or decreasing function of risk. Where trust is high, return and risk are perceived to vary inversely. Where trust is low, return and risk are perceived to vary directly. Other researchers have suggested that affect may play a role in causing risk and return to vary inversely. This appears reasonable since trust is most likely to be a strongly affect related phenomenon.

The Presidential Puzzle: Political Cycles and the Stock Market

By Pedro Santa-Clara and Rossen Valkanov

Journal of Finance, Vol. 63, No. 5, October 2003, 1841-1872.

This detailed econometric study investigates the relation between United States stock market returns and presidential administrations from 1927 to 1998. The primary finding is that real returns are higher under Democratic administrations by about 9 percent per year. Detailed statistical analysis indicates that the difference in returns is not related to differences in economic business cycle variables, is not concentrated around election dates, is not due to higher perceived market risk during Democratic administrations, and is most unlikely due to chance. If anything market volatility is greater during Republican administrations. Also, returns during Democratic administrations tend to increase as the administration's time in office progresses. Finally, the higher Democratic returns appear to be unanticipated. Anticipated returns appear to be higher under Republication administrations but are not realized. The authors conclude that this pattern of market behavior represents another economic anomaly. The authors ask, how can it be that investors are so regularly and positively surprised by Democratic administrations? Another research opportunity for Behavioral Finance!

Internet Investment Advice: Investing With a Rock of Salt

By Michael Dewally

The Financial Analysts Journal, July/August, 2003, 65-78.

Currently more than 13 million investors have online brokerage accounts. However little is known about their investment behavior except that once investors go online, they appear to trade more actively, more speculatively and less profitably. In this empirical study using market data, professor Dewally analyzes the stock investing advice offered on two major internet newsgroup investment sites and chronicles its impact on the market behavior of the recommended stocks. The study covers two one month periods during both down and up markets in 1999 and 2001 and includes approximately 33,000 investor postings. The principle conclusions from the study are:

1. The majority of the recommendations were made for higher Beta, small capitalization, growth stocks in the technology sectors.
2. The majority (60%+) of recommendations were positive, even in down markets.
3. Most of the reasons for recommendations were either due to positive past stock market performance or information about products or prospects. Information about financial results that might have been obtained from financial statements was associated with about 16% of the recommendations. In general the pattern of recommendations and comments suggested a momentum trading strategy.
4. There is no evidence that newsgroup postings and recommendations had any significant effect on stock price behavior.
5. There is weak evidence that the more frequent internet posters exhibited some minimal skill.

Lay Rationalism and Inconsistency between Predicted Experience and Decision

By Christopher Hsee, Jiao Zhang, Fang Yu, Yiheng Xi

Journal of Behavioral Decision Making, Vol. 16, July, 2003, 257-272.

This paper analyzes the results of a series of laboratory studies involving decisions (decision utility) that were inconsistent with desired outcomes (experienced utility). The primary conclusion is that when making decisions, decision makers often prefer to rely on "cold hard facts" rather than "hot" affective attributes, even when they actually prefer the choice that can be more affectively justified. Thus, many decisions may be characterized as incorrectly Lay Rationalistic. The authors present a decision behavior model that is based on Lay Economism, Lay Scientism and Lay Functionalism. Lay Economism refers to a tendency to rely on decision attributes central to economic tenants. Lay Scientism refers to a tendency to rely on decision attributes that appear to be objective or unequivocal. Lay Functionalism refers to a tendency to rely on attributes that are primary to the objective of the choice situation.

The authors argue that whether a decision maker relies too heavily on"hot" or "cold" attributes depends upon the context of the decision.

Strategic Bias, Herding Behavior and Economic Forecasts

By Jordi Pons-Novell

Journal of Forecasting, Vol. 22, 2003, 67-77.

Prior research has suggested that forecasters often appear to make estimates that are inconsistent with the hypothesis of rational expectations (minimizing expected squared forecast errors) due to alternate strategic objectives. More specifically, forecasters may be trying to garner publicity, prestige, minimize some loss function or just appear to be one of the crowd (herd). This empirical paper analyzes the six, twelve and twenty four month forecasts of approximately 1500 forecasters for the period 1972 to 1998, utilizing the Livingston Survey data. The primary conclusion reached is that forecasters more often appear to be acting strategically rather than rational, in a technical sense. More specifically, the author reports that forecasters for financial institutions tend to be overly optimistic while academic forecasters tend to be overly pessimistic. Non-financial business forecasters appear to "herd" and follow the consensus. No evidence was found of a relation between forecaster age (a proxy for experience) and forecast deviations from the consensus forecast (an indication of a strategy based on age related reputation).

Familiarity, Ambivalence and Firm Reputation: Is Corporate Fame A Double Edged Sword?

By Margaret Brooks, Scott Highhouse, Steven Russell, David Mohr

Journal of Applied Psychology, Vol. 88, No. 5, 2003, 904-914.

This paper discusses previous research dealing with the influence of reputation and presents new laboratory evidence supporting the hypothesis that corporate fame is a double edged sword. Specifically, the authors demonstrate that more familiar firms are more often assigned to both more positive and negative categories than firms with "less enriched" profiles. Greater familiarity appears to make "mentally available" more information, both positive and negative, about the well known firm. Thus a more familiar firm is seen as more positive or negative than a less familiar, but otherwise identical firm. Consistent with the compatibility hypothesis, approach or positive response modes encourage the retrieval of positive information while negative response modes encourage the retrieval of negative information. Nevertheless, consistent with the " mere exposure effect," there is a tendency for well known firms to be more positively appraised, even in cases of a negative net appraisal.