The Journal of Behavioral Finance
2004, Vol. 5, No. 4, 231–232

RESEARCH ELSEWHERE

Robert A. Olsen

Construction of Preferences by Constraint Satisfaction

By Dan Simon, Daniel Kraweczyk and Keith Holyoak

Psychological Science, Vol.15, No. 5, 2004, pp. 331–336.

This experimental study utilizes a realistic preference based choice task to determine whether preference dominance is achieved by restructuring preference values and or weights. More generally, this research investigates whether decision preferences were fixed before the decision task began or whether preferences were partially reconstructed as the task proceeded. Most economic models treat preferences as fixed. Psychological studies have shown them to be labile, reversible and obscure in normal decision settings and somewhat dependent upon the form and manner in which decision information is presented. These authors find that decision makers unconsciously shift the perceived desirability and importance of the various decision attributes to makes one alternative dominant over the other. More particularly, attribute preferences are altered to make the chosen alternative feel as "coherent" as possible.

Asset Management and Affiliated Analysts' Forecasts

By Paul Irvine, Paul Simko and Siva Nathan

Financial Analysts Journal, May/June, 2004, pp. 67–77.

This empirical study investigates whether sell side analysts' forecasts are more accurate and optimistic in instances where the analysts are employed by firms managing mutual funds that contain the recommended stocks. Using data from 17 Brokerage fund families, covering the period 1994 to 2001, the writers find that analysts tend to be more accurate in forecasting earnings of stocks held by their own family funds. More specifically, they suggest that fund managers appear to notice sell side analysts with superior forecasting ability and invest more in these stocks, everything else being equal. They find no evidence that the analysts exhibit more than "normal" over optimism in their earnings forecasts. The authors also suggest that the quality of sell side analysts earnings forecasts may be superior because of information sharing between fund managers, buy side analysts, and sell side analysts.

Family Values and the Star Phenomenon: Strategies of Mutual Fund Families

By Vikram Nanda, Z. Jay Wang and Lu Zheng

The Review of Financial Studies, Vol. 17, No. 4, 2004, pp. 667–697.

Using market and fund data for the period 1992 to1998, the authors find that Mutual fund families as a whole benefit from having one fund that is a superior (star) performer. In particular they suggest that when a Mutual fund family contains at least one star performer, the fund family experiences greater cash inflow than fund families without a star performer. This cash flow benefit also extends to family funds that are not star performers. The positive spillover effect appears to encourage Mutual fund families to pursue star creating strategies. Asymmetrically, there is no evidence that a "dog fund" reduces the cash flow to other "non dog" family funds.

What Individual Investors Value: Some Australian Evidence

By Marilyn Clark-Murphy and Geoffrey N. Souter

Journal of Economic Psychology, Vol. 25, 2004, pp. 539–555.

This study summarizes investment behavior data obtained from questionnaires completed by a large number of experienced, non professional, investors. In general,

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the results indicate that investors place greater decision weight on qualitative, as opposed to quantitative, information when making stock market selections. In particular, information about management quality and future market prospects was particularly important in the decision process. Also important was the recent price trend of the stock, its P/E ratio and dividend stability. Consistent with other recent evidence, investors were found to associate higher return with lower risk. The respondents also seemed to exhibit "Home Country Bias." This very competent piece of research corroborates previous results suggesting that experienced investors are focused on obtaining a more complete "big picture" of possible future performance and less concerned with day to day financial market gyrations.

Time Discounting Over A Lifespan

By Daniel Read and N.L. Read

Organizational Behavior and Human Decision Processes, Vol. 94, 2004, pp. 22–32.

Time discounting has been a topic of considerable interest across a number of scientific disciplines. A sub topic of importance has been the pattern of discounting that is age related. This paper uses a large sample of respondents to investigate how time discount rates vary with age. The overall finding is that discount rates start out at a medium level for young adults, fall toward middle age and then rise to the highest levels in old age. These effects were particularly strong for outcomes that were long delayed (greater than 7 years), but of minor significance for outcomes with short delays (less than 3 years). This pattern of discounting appears to be more physiological than social in origin.

Bias In European Analysts' Earnings Forecasts

By Stan Beckers, Michael Steliaros and Alexander Thomson

Financial Analysts Journal, March/April, 2004, pp. 74–84.

This study examines IBES earnings forecast data for approximately 690 European companies for the period 1993 to 2002. The focus is on 12 and 24 month earnings forecasts. The overall findings are consistent with U.S. results. That is, analysts are quite inaccurate, with a pattern of forecasts indicating over optimism and herding. More specifically, on average, forecasted earnings were about 35% above actual earnings and about 40% of the forecasts fell outside of two standard deviations of actual earnings. Particularly large relative errors and bias were found for those industries where forecasting was the most difficult. Forecast error and optimism also increased with the dispersion of analyst forecasts. Finally, there did not appear to be any significant country related effects relative to accuracy and optimism.

The Pros and Cons of Temporally Near and Distant Action

By Tal Eyal, Nira Liberman, Eva Walther and Yaacov Trope

Journal of Personality and Social Psychology, Vol. 86, No. 6, 2004, pp. 781–79

In series on laboratory studies the authors conclude that Pro arguments are more influential for decisions occurring much farther into the future while Con arguments are more influential for more immediate decisions. They suggest that the reason for this pattern of influence is that Pros tend to be associated with higher level construals and Cons with lower level construals. Higher level construals are more focused on essential qualities of events, such as desirability, whereas lower level construals are more associated with secondary influences, such as the feasibility of an event. Previous research in Construal Theory has indicated that decisions about more distant events tend to be more influenced by higher level construals.

Behavioral Finance: How Matters Stand

By Nico L. van der Sar

Journal of Economic Psychology, Vol. 25, 2004, pp. 425–444.

In this review article the author attempts to summarize and assess where Behavioral Finance currently stands as an incipient discipline. The article begins with a review of the current finance anomalies and then discusses behavioral research related to anomaly explanations. Much attention is given to Hersh Shefrin's three volume work on Behavioral Finance. Unfortunately the author does not give clear focus to two of the critical differences between standard finance and behavioral finance. In particular he does not discuss important evidence and implications concerning the adaptive nature of the human mind and he ignores pervasive evidence that financial markets are complex nonlinear systems. While this paper presents a good detailed discussion of a number of specific behavioral issues it unfortunately tends to leave one with the impression that standard finance only needs a little behavioral "tweaking" as opposed to the prospect of a major psychological and "system focused" overhaul.