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An introduction to the Journal of Behavioral and Experimental Finance

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An Introduction to the Journal of Behavioral and Experimental Finance

This issue is the first of a new Journal, Journal of Behavioral and Experimental Finance. The aim of the journal is to provide a single place for the intersection of two distinct fields; finance (in the broadest sense) and behavioral/experimental approaches. Finance is now mature as a discipline, and behavioral / experimental economics has achieved a solid status. Yet, despite growing usage of the experimental toolkit in finance and the growth of learned associations in the area no journal existed as an outlet dedicated to this endeavor. Similarly behavioral approaches have become common as lenses through which to view financial issues, and while there do exist some journals it is clear that this is a field that is underserved

Academic peer reviewed journals are, for all their problems and issues, at the very core of how researchers communicate in the modern academy. This is likely to remain the case for a considerable period of time. The quality and impact of a journal depends on its authors, its readers and on its editorial processes. I believe that this journal has the potential to very rapidly become a leading outlet. I am fortunate to be supported by an extremely talented team at Elsevier, led by the publisher Jagna Mirska-Ghent. In many respects it was her vision that led to the creation of the journal, shepherded by Marc Chahin. The editorial board contains many persons who have authored key papers in behavioral and experimental finance, as well as industry representatives. It is, I believe, vital that a discipline such as finance, which in my view must be a supportive function of business not just a mere end in itself, we in the academy keep in regular touch with industry and vice versa. The editorial board and I warmly welcome submissions from industry.

This first issue contains papers that I believe give a good indication of the breadth we wish to cover in the journal. We welcome papers that address questions in corporate finance, asset pricing, financial econometrics, international finance, personal financial decision making, macro-finance, banking and financial intermediation, capital markets, risk management and insurance, derivatives, quantitative finance, corporate governance and compensation, investments, market mechanisms, SME, microfinance and entrepreneurial finance, where such research is carried out with a behavioral perspective and/or is carried out via experimental methods. Social and management sciences cannot be effectively investigated with one approach only, and there is no one correct model nor method. In the wake of the Global Financial Crisis modern economics, macro and finance in particular, have come under well justified criticism for too narrow a focus both in terms of approach and model. We trust that over time this journal will assist in creating a more open environment

We open with a plea towards this openness. **Aggarwal and Goodell**, in their paper, note that in finance and to some extent in accounting researchers need to look for inspiration beyond where we have traditionally looked. The role of national culture as a mediating factor in exchanges is well accepted in many social sciences, but is only very recently being introduced in finance. They plea

for this gap to be filled showing how cultural perspectives have greatly aided international business and management scholarship.

Two papers review historical aspects of behavioral finance. **Branch** draws parallels with institutionalism, the failure of which to thrive despite having some decades where it was seen as the wave of the future should suggest to us that nothing is given. Although Thaler (1999) may be right that in the end there will be no behavioral finance as “economists will routinely incorporate as much behavior into their models as they observe in the real world”, the failure of institutionalism should give us pause. **Larkin** delves much further back into history and philosophy, reminding us that it is in fact only relatively recently that the centrality of the human was sidelined in economics. Finance as an outgrowth of economics suffered due to it coming to growth just at the time that the human was least integrated in economics.

Seiler shows how money illusion, in a real estate setting, impacts on bubble formation. He demonstrates that with careful framing this money illusion can be mitigated. The collapse of real estate bubbles has been a recurrent feature of the crisis, and any paper that sheds light on how to slow the formation of a future bubble should be warmly welcomed.

Fullbrunn and Haruvy, and also **Sonsino and Shavit** provide us with experimental papers. Fullbrunn and Haruvy shows how dividend signaling emerges in a market subject to takeover bids, a variant of the investment game. Sonsino and Shavit examines the effect of the financial crisis on portfolio formation, finding that the “misperception of risk” issue raised by Shefrin dominates the thinking of investors.

Superstition should, in traditional finance, have little if any role to play in the pricing of stocks. Despite this there have been numerous papers that have demonstrated some influence. **Auer and Rottmann** investigate two such issues – the Friday the 13th effect and tetraphobia (fear of the number 4). They find mixed evidence but conclude that in their sample of Asian markets there is little strong support for superstition influencing the markets.

We conclude with two papers on sentiment. **Pownall and Borgers** paper is conceptually linked to Sonsino, in that both examine attitudinal impacts on investment. They find, using Dutch data, that investment in socially responsible stocks emerges less as a rational economic decision and more as a way to show an individuals solidarity with the aims of the funds. **Brooks** et al also examine sentiment, around disposals, finding that investors focus on the announcements rather than on the reportage of the announcements.

Thaler, Richard H. "The end of behavioral finance." *Financial Analysts Journal* (1999): 12-17.