PECUNDUS
FINANCIAL COMPETENCE

2 - Day Workshop: Behavioral Finance – The Psychology of Investing

Course objectives

The workshop "Behavioral Finance – The Psychology of Investing" is designed to provide a thorough introduction on how psychology plays a key role in the world of investment management. The workshop will present the key "behavioral biases" which influence the investors decisions when it comes to making investments and also when it comes to properly evaluate the risk embedded in these investments.

The workshop gives first a brief overview of the key concepts in modern portfolio theory which is based on the assumption of the *homo economicus*, the rational investor. It then recaps the historical development in investing which let in the last century first to modern portfolio theory and, thereafter, to behavioral finance. Finally, the behavioral biases which describe the psychological challenges faced when investing are explained in detail using many examples and exercises. It will be shown how every investor, even those knowledgable of behavioral biases, suffer from those.

Who for?

The workshop is designed for junior and middle level managers working in finance, asset and risk management who want to get a structured introduction to the topic of behavioral finance.

This workshop is very interactive. This means that the concepts will be presented with many applications which are explained by the trainer and by using many exercises that have to be solved by the participants with the trainer's support. Through these exercises it will be demonstrated how also the workshop participants are influenced by behavioral biases even though they are cognizent of them.

No prior knowledge on the subjects is required but a sound interest in investment management is desired. Especially, no mathematical knowledge or knowledge in financial management is needed in order to understand the ideas and the concepts of the workshop.

Workshop background

When making investment decisions, the human being acts in many cases not rational. Especially in situations like the "dot.com crises" 2001 – 2003 and the "Lehman crisis" 2008 – 2009 the behavior of investors often lacks this rationality which, however, is a key assumption in modern portfolio theory as taught by Markowitz. But if the investor as a human being does not act rational, how can his irrationality be captured and described?

The answer lies in the behavioral biases which describe the four categories of behavioral finance: social biases, perseverance biases, information processing biases and emotional biases. While some biases are obvious like "herding" and "imitation" (which belong to the social biases), other biases like "illusion of control", a perseverance bias, are less obvious and, therefore, in investment management especially critical to watch out for. The workshop will present the most important behavioral biases in detail with many interactive examples and practical cases.

Benefits of the workshop

The workshop will enable you to:

- Get introduced to the basics of modern portfolio theory and the idea of the rational investor.
- Understand how the financial theories developed in history and what the main underlying assumptions were.
- See how stock market anomalies and crashes cannot sufficiently be explained by traditional finance theory, thereby, leading the way to the emergence of behavioral finance in the last century.
- Learn how the various behavioral biases can be categorized and described.
- Get a thorough understanding of the key behavioral biases and how they affect an investment when making investment decisions and evaluating the embedded risk, no matter if the investor is a private person or an institution.
- Understand the differences between behavioral biases opportunities and arbitrage opportunities when investing.

PECUNDUS
FINANCIAL COMPETENCE

Workshop agenda

The workshop covers the basic concepts of behavioral finance need when managing investment decisions, i.e., when evaluating return and risk of the investment. It presents in detail the key behavioral biases all investors suffer from. The course is designed around many exercises and practical cases.

Day 1	
09.00 – 09.15	Introduction and course description
09.15 – 10.45	Introduction to behavioral finance • What is behavioral finance? • Traditional portfolio theory – A brief recap • Stock market crashes
10.45 – 11.15	Coffee break
11.15 – 12.45	Introduction to behavioral finance (continued): • Stock market anomalies • Classifications within behavioral finance • Summary: Key differences between traditional portfolio theory and behavioral finance
12.45 – 14.00	Lunch break
14.00 – 15.30	Historical development of traditional and behavioral finance: • Classical period • Neo-classical period • Emergence of behavioral finance and the key researchers in this field: - Robert Shiller - Vernon Smith - Solomon Asch - Paul Slovic - Daniel Kahneman - Amos Tversky - Hersh Shefrin - Richard Thaler - David Hirshleifer - etc.
15.30 – 16.00	Coffee break
16.00 – 17.00	Social biases: • Introduction • Herding • Contagion/imitation • Cascades

Day 2	
09.00 – 09.15	Recap of day 1
09.15 – 10.45	Perseverance biases: • Cognitive dissonance • Conservatism • Confirmation • Representativeness • Illusion of control • Hindsight
10.45 – 11.15	Coffee break
11.15 – 12.45	Information processing biases: • Mental accounting • Anchoring • Framing • Availability • Self attribution • Outcome • Recency
12.45 – 14.00	Lunch break
14.00 – 15.30	Emotional biases (part I): • Loss aversion • Overconfidence • Self-control • Status quo
15.30 – 16.00	Coffee break
16.00 – 17.00	Emotional biases (part II): • Endowment • Regret aversion • Affinity