Behavioral Finance

Gabelli School of Business
FNBU 4458
Fordham University
Summer 2016

INSTRUCTOR: Mario J. DiFiore
AUTHORS: Lucy Ackert and Richard Deaves
REQUIRED READ: Either, Animal Spirits (Ackerlof and Shiller) or Thinking Fast and Slow by Daniel Kahneman
OFFICE: Hughes Hall Room 419
OFFICE HRS: Monday-Thursday, 1030-1230 and 3:30 - 4:30
CONTACT 718.817.4109 AND difiore@fordham.edu

Course Description:
The development of Financial Economics has traditionally stood on the paradigm of rational decision making, that is, securities and other investment decision making are based on maximizing utility. In fact, the Efficient Marketing Hypothesis (EMH) is based on rational, non-emotional, utilitarian motives. Yet, much research also shows that financial decision makers, whether institutional investors, portfolio managers, business executives, households, and others often make decisions that are not as rational or utility-maximizing as can be.

This course explores the intersection of investments, securities, and markets with the psychological underpinnings of decision making. By applying research (for which several Behavioral Finance research authors we read received Nobel Prizes) we look at how identification of price anomalies in securities and other assets/markets can be compared to intrinsic securities value concepts.

Behavioral Finance offers an interesting challenge to traditional Financial Economic theory by explaining the psychological underpinnings of decision making which help to shed light on the anomalies and paradoxes observed. Through readings, simulation, experiments, case studies, book reviews, and class lecture, we explore Behavioral Finance to explain the observed the anomalies that rational decision making cannot explain. If the market is not as efficient as the EMH tells us, then areas such as value investing may flourish.

Course Objectives:
Upon completion of this course, students should be able to:

- Demonstrate knowledge of Behavioral Finance topics and concepts.
- Apply research in the areas of behavioral finance and psychology to help explain market and securities anomalies.
- Utilize Behavioral Finance knowledge to understand value investing.
- Apply analytical skills to apply Behavioral Finance concepts to value investing.
Recommended Supplementary Reading:
Students should regularly read at least one of the following financial periodicals: Wall Street Journal, New York Times, Fortune, Forbes, and the Economist Magazine, among others.

Term Paper: 8-10 page paper illustrating the student’s understanding and reflection on either Animal Spirits or Thinking, Fast and Slow. By referencing (and including with your paper as an attachment) two (2) articles from either the Wall Street Journal, Economist Magazine, New York Times, Business Week, Forbes, or Fortune, or other reputable financial or business periodical, illustrate two to three points made in your paper and show their application to the concepts we review in the course.

Assessment:
- Midterm Exam: 30%
- Final Exam: 30%
- Term Paper: 30%
- Participation/Presentation: 10%

Grading Policy:
- A = 94 to 100  A- = 90 to 93
- B+ = 86 to 89  B = 82 to 85  B- = 80 to 81
- C+ = 76 to 79  C = 72 to 75  C- = 70 to 71
- D = 61 to 69
- F = 60 and below

Undergraduate Academic Integrity Policy (see link and read Policy)

http://www.fordham.edu/info/21684/regulations/3695/the_fordham_university_undergraduate_policy_on_academic_integrity
### Class Schedule:

<table>
<thead>
<tr>
<th>Class</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction to the Course; Introduction to Value Investing</td>
</tr>
<tr>
<td>2</td>
<td>Expected Utility Theory; Asset Pricing Concepts; Market Efficiency</td>
</tr>
</tbody>
</table>
| 3     | Prospect Theory: Framing and Mental Accounting  
Case Study: Bonds’ Yields Trump Worries on Spain and Italy, WSJ April 26, 2013 |
| 4     | Challenges to Market Efficiency: Noise Trading, Lagged Reactions to Earnings Announcements: Implementation Costs |
| 5     | Rules of Thumb Decision Making (Heuristics) and Biases: Perception, Memory, Irrationality, Adaption, Gambler’s Fallacy; Familiarity/Home Bias  
**Class Experiments: Heuristics** |
| 6     | Decision Making Implications of Heuristics and Biases on Financial Decision Making |
| 7     | Midterm Examination |
| 8     | Overconfidence, Securities Traders and Overtrading; Emotional Foundations of Decision Making Implications of Heuristics and Biases on Financial Decision Making |
| 9     | Implications of Overconfidence on Financial Decision Making |
| 10    | Individual Investors and the Force of Emotion: Social Forces |
| 11    | Behavioral Factors and Stock Market Puzzles |
| 12    | Corporate Governance and Effect on Securities Pricing; Enterprise Risk Management and Equity Investor Perception (Economist Magazine; Governance, Risk and Compliance in Financial Services) |
| 13    | Behavioral Finance and Value Investing: Tying It Together |
| 14    | Course Review and Feedback |
| 15    | Final Examination |
Mario J. DiFiore is Assistant Dean and Senior Advisor in the Gabelli School of Business, Fordham University and Co-Director of the Corporate Compliance Institute, a joint venture between Fordham Law School and the Gabelli School of Business. Dean DiFiore also serves as Director of the Compliance Risk Management program for Euromoney Financial Training (UK); serves as Subject Matter Expert and Faculty for Factum Worldwide, Singapore, and Simulation Trainer for Tri-Simulation Corporation.

Dean DiFiore joined Fordham's GSB Administration, July 2010 after a 25 year career on Wall Street and the Federal Reserve Bank of New York. Prior to joining Fordham, he was Director and Co-Global Head of Deutsche Bank AG's Compliance Training Group for the Commercial and Investment Bank (CIB), as well as the Head of Americas Compliance Training. He was responsible for one of the largest financial regulation and Compliance training programs on Wall Street.

In addition to his career at Deutsche Bank AG, Dean DiFiore was an Assistant Director at Ten Squared LLP, a medium-sized hedge fund, as well as the Continuing Education Manager for Prudential Securities. Dean DiFiore began his career with the Federal Reserve Bank of New York where he spent over 12 years in the Research and Statistics, International Affairs, and Public Information areas.

In addition to teaching at Fordham's Gabelli School of Business since 2002, Dean DiFiore has taught Finance, Economics, and Business courses at New York University, Baruch College, Pace University, SUNY Empire State College, and the Mountbatten Institute (St. Mary’s College, U.K.). He is a former member of the Securities Industry and Financial Markets Association (Continuing Education Committee). As an international consultant in the areas of Risk, Compliance, Behavioral Finance, and Financial Markets, he has taught in Europe, Asia, Africa, North America, and the Middle East. Dean DiFiore received his MBA and BA *(summa cum laude)* from Fordham University and is pursuing a PhD degree in Finance at the NEOMA Business School (Paris, France).