CORE CONCEPT

Behavioural Finance: Investor Psychology, Market Anomalies and Investment Biases

Behavioural Finance: Investor Psychology, Market Anomalies and Investment Biases

Introduction:

Investment losses are often traced not to missing data but to predictable errors of judgement: holding losing positions too long, chasing crowded trades, anchoring on purchase prices and trusting overconfident forecasts. Behavioural finance explains these patterns in investors, markets and corporate managers. This Core Concept course equips investment, wealth, treasury and corporate finance practitioners to diagnose biases in trading records, deal cases and investment committee minutes, profile client risk behaviour and build decision safeguards. Participants produce an Investment Bias Audit and Debiasing Protocol for a real portfolio, mandate or committee.

Course Objectives:

- Assess where market prices depart from the efficient market hypothesis and why limits to arbitrage allow mispricing to persist
- Apply prospect theory, loss aversion and probability weighting to explain investor reactions to gains, losses and rare events
- Measure the disposition effect, overconfidence, anchoring, herding and mental accounting in trading records and portfolio decisions
- Evaluate managerial overconfidence in acquisition, capital expenditure and financing proposals before approval
- Profile client risk tolerance and loss behaviour, and structure client conversations during market drawdowns
- Produce an Investment Bias Audit and Debiasing Protocol covering decision rules, committee procedures and review checkpoints

Target Audience:

- Investment analysts who prepare security, sector and asset class recommendations
- Portfolio and fund managers accountable for buy, hold and sell decisions and position sizing
- Wealth and private banking relationship managers who profile clients and explain portfolio results
- Treasury professionals who invest surplus cash and manage market exposures
- Corporate finance and business development managers who prepare acquisition and capital expenditure cases
- Investment committee members and secretaries responsible for committee papers and minutes

Course Outline:

Day 1: Market Efficiency, Its Limits and the Behavioural Finance Lens

- Efficient Market Hypothesis Forms: Weak, Semi-Strong and Strong Efficiency Tests
- Limits to Arbitrage: Noise Trader Risk, Implementation Costs and Short-Sale Constraints
- Overreaction and Underreaction Evidence: Long-Horizon Reversals and Post-Announcement Drift
- Experimental Asset Markets and Price Formation Among Traders
- Current-State Review of Recent Investment Decisions and Their Stated Rationale

Day 2: Prospect Theory and the Psychology of Investor Choice

- Prospect Theory Value Function: Reference Point, Concavity for Gains and Convexity for Losses
- Loss Aversion Coefficient and Myopic Loss Aversion in Evaluation Periods
- Probability Weighting and Lottery-Like Securities in Cumulative Prospect Theory
- Equity Premium Puzzle and Excess Volatility Explained Through Loss Aversion
- Cognitive Errors Versus Emotional Biases Classification Grid for Investors

Day 3: Measuring Investor Biases in Portfolio Decisions

- Disposition Effect Measurement With Proportion of Gains Realised Versus Proportion of Losses Realised
- Overconfidence Diagnostics: Trading Turnover, Forecast Calibration and Concentration Tests
- Anchoring on Purchase Prices, Analyst Targets and Past Peaks in Sell Decisions
- Herding and Momentum Chasing in Fund Flows and Crowded Positions
- Mental Accounting Buckets, House Money Effect and Segregated Portfolio Sleeves

Day 4: Anomalies, Bubbles and Behavioural Corporate Finance

- Speculative Bubble Anatomy: Displacement, Euphoria and Collapse Across Market Episodes
- Calendar, Size and Value Anomalies and the Persistence Debate
- Managerial Overconfidence in Acquisition Premiums and Integration Forecasts
- Optimism Bias in Capital Expenditure Cases and Market-Timing of Equity and Debt Issues
- Regret Aversion and Escalation of Commitment in Underperforming Holdings

Day 5: Investment Committee Case Work and the Bias Audit

- Client Risk Profiling Questionnaire Design: Risk Capacity, Risk Tolerance and Loss Behaviour
- Drawdown Client Conversation Case: Framing Losses, Horizon and Rebalancing Discipline
- Investment Committee Design: Independent Pre-Votes, Assigned Dissent and Decision Journals
- Pre-Mortem and Sell Discipline Rules for Acquisition and Portfolio Cases
- Investment Bias Audit and Debiasing Protocol Drafting and Peer Challenge

Skills You Will Gain:

- Market Efficiency Assessment
- Prospect Theory Application
- Disposition Effect Measurement
- Forecast Calibration Review
- Bubble and Anomaly Analysis
- Acquisition Case Bias Screening
- Client Risk Behaviour Profiling
- Investment Committee Process Design

Why Attend This Course:

- Return with an Investment Bias Audit and Debiasing Protocol tested against peers on your own portfolio, mandate or committee
- Recognise in your own trading records when losing positions are held too long or winners sold too early
- Question overconfident deal and capital expenditure forecasts with evidence rather than intuition
- Handle client conversations during market falls with a structured approach that protects long-term plans

Conclusion:

Biases in investment decisions are systematic, measurable and costly when left unchecked. The course moves from the limits of market efficiency and arbitrage, through prospect theory and loss aversion, to measuring the disposition effect, overconfidence, anchoring, herding and mental accounting in real records, and then to bubbles, anomalies and overconfidence in corporate deals. The final day applies these methods to client profiling, drawdown conversations and committee design, producing an Investment Bias Audit and Debiasing Protocol for each participant's own portfolio or committee.