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Behavioral biases of finance professionals: Turkish evidence[☆]Halil Kiyamaz^{a,b}, Belma Öztürkkal^{c,*}, K. Ali Akkemik^d^a Crummer Graduate School of Business, Rollins College, Winter Park, FL 32789, USA^b Kadir Has University, Istanbul, Turkey^c Department of International Trade and Finance, Kadir Has University, Cibali, 34083 Istanbul, Turkey^d Department of Economics, Kadir Has University, Cibali, 34083 Istanbul, Turkey

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ABSTRACT

This study extends the existing literature on the determinants of behavioral biases of Turkish finance sector professionals. It examines the impact of various personal and objective attributes of finance sector professionals on their risk choices derived from their portfolio allocation, and personal wealth data. Utilizing survey data from 206 professionals, we find that these professionals take higher risk in the form of investment in equities when investing in home country firms (geographic bias) and investing in firms headquartered in their home towns (home bias). Those relying on their own predictions when making investment decisions and those with emotional biases invest less in equities. Findings further show that younger professionals, professional with less education, with lower risk aversion, and with single broker accounts are more likely to invest in equities. We also find that those with higher expected returns invest more in equities, showing overconfidence. Subsample analysis results for finance professionals suggest that portfolio managers and brokerage company professionals display differing risk taking behavior.

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1. Introduction

While traditional finance theories assume investor rationality in financial decision making, several behavioral finance researchers (i.e. Barber and Odean, 2000, 2001, 2008, French and Poterba, 1991, Ivkovic and Weisbenner, 2005, and Statman et al., 2006, among others) show that investors act irrationally in their financial decisions making. For example, Odean (1999), Barber and Odean (2001) focus on behavioral biases in the investment decisions of individual investors focusing on the selection of individual stocks, Bailey et al. (2011) show the effect of behavioral biases on the mutual fund choices of a large US brokerage investors. Findings show behaviorally biased investors tend to make poor deci-

sions about their investments, trading frequency with poor timing, resulting in poor investment performance. Behavioral finance studies also document various biases that affect the investors' decision making processes. These biases include investors' highly valuing their own predictions (overconfidence), investing only in home country securities (home bias variable), investing only in companies whose headquarter is close to their place of residence (geographical bias variable), and media coverage influencing investment decisions (emotional bias variable).

Several survey studies also attempt to explain investor behavior using various dimensions in addition to investors' biases. Georgarakos and Inderst (2011) use financial competence and show that financial advice is more important for investors with low perceived financial competence. Other studies argue investor sophistication is important for wealth. For example, Hoffmann et al. (2010) find that investors using fundamental analysis are more likely to be risk-takers, have high trading volumes, and are overconfident. van Rooij et al. (2011) report that basic and self-assessed financial literacy is positively related to stock market participation using Dutch household data. Dorn and Sengmuller (2009) find that excessive trading occurs for entertainment purposes for German brokers' clients. Nicolosi et al. (2009) report that, despite their irrational behavior, investors learn from their investment experiences. Many other studies (Jacobsen et al., 2014; Halko et al., 2012; Heimer, 2014; Mugerman et al., 2014) use

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gender, marital status, co-workers' impact, financial literacy, and cultural differences to explain investor behavior.

Previously, [Fuertes et al. \(2014\)](#) with actual individual investor trade data and [Ozturkkal \(2013\)](#) with survey study on professional individual investors documented that the investors in this emerging market are under-diversified. [Ozturkkal \(2013\)](#) shows that male investors trade more and the number of trades increases with the investor's equity portfolio increase as well as when diversification level increases. The findings suggest that male investors being more confident than females in their investment decisions and have better portfolio diversification choices with increasing confidence. Our study depicts the different levels of finance professionals and the variances in their behavior.

The growing behavioral finance literature helps us uncover a variety of decision-making biases in how investors use in decision making. This study extends the existing literature on the determinants of the risk choices and preferences of investors by using a survey conducted on Turkish finance professionals. Our study aims to explain the risk taking behaviors of these professionals regarding their investment choices (i.e. equity investment) and uses the proportion of funds invested in equities as a proxy for a risk measure. Our explanatory variables include the following categories: behavioral bias, demographic, risk, and information variables.

Providing evidence from the risk taking behavior of Turkish professionals is interesting and important for several reasons. First, it will provide additional evidence on growing literature on behavioral finance that demonstrate how a variety of decision-making biases influence investment decision and potential outcomes. Second, the share of emerging markets in global investments and total portfolio value and number of the investment funds in Turkey has increased during the last two decades. There are very few survey studies on investment choices of finance professionals in emerging markets. This study provides additional evidence on the issue. Third, the Turkish market has been experiencing a high turnover ratio (107.7%) measured by trading volume regarding market capitalization. Korean and Chinese markets are two other similar markets with high share turnover ratios.¹ The existence of high turnover indicates a large amount of new information coming to the market. As a result, this market may provide a laboratory environment for testing markets with high turnover for signs of behavioral biases. This may further provide information advantages to finance professionals over other investors and hence influence their investment choices.

Our study contributes to the literature in the following ways. First, to our knowledge, this is the first behavioral finance survey study carried out with an emphasis on behavioral biases with different types of finance sector professionals in Turkey. It is increasingly important to understand investment behaviors of professionals for individual as well as institutional investors. Second, we examine whether finance sector professionals have an information advantage over other individual investors and whether they are subject to behavioral biases to a smaller extent. Specifically, we analyze the trading behavior of finance sector professionals by measuring their investment choices and risk attitudes. We use multiple categories of variables to explain their behaviors. Third, a unique dataset is obtained through the survey of portfolio managers. To collect data, we used a questionnaire similar to one employed by [Dorn and Huberman \(2005\)](#). The survey includes both objective and subjective attributes such as actual portfolio and trading choices, and self-reported personal attributes.

By using the proportion of investment in equities as the dependent variable, we find that finance professionals who rely on their

own predictions in investment decisions and have emotional biases are less likely to invest in equities and those with geographical and home biases are more likely to invest in equities. We further find that younger and less educated finance professionals have smaller portions of their funds invested in equities. Among the risk variables considered, we find that respondents with a higher number of transactions invest more in equities while those who classify themselves as risk averse put a smaller portion of their wealth in equities. We finally note that a higher return expectation by finance professionals leads to a larger portion of funds invested in equities, showing overconfidence in their decisions. We find the source of information being insignificant in explaining the risk taking behavior of finance professionals. Dividing the sample into two subsamples shows that statistically significant behavioral variables continue to be significant for the manager subsample while only *own predictions* and *geographical bias* variables are significant in the brokerage company professional subsample.

The rest of the paper is organized as follows. The Section 2 reviews the literature on biases of investors' trading behavior. Section 3 describes the data, method, and hypotheses. The next section reports the empirical findings and interpretation of results. The final section concludes the study.

2. Literature review

Investor irrationality is observed by several behavioral finance researchers (i.e. [Barber and Odean, 2000, 2001, 2008](#), [French and Poterba, 1991](#), [Ivkovic and Weisbenner, 2005](#), and [Statman et al., 2006](#), among others). The question of how investors decide to invest is investigated using survey studies from various perspectives.

Among them, several empirical studies ([French and Poterba, 1991](#); [Odean, 1998](#); [Barber and Odean, 2000](#), [Bailey et al., 2011](#) among others) in behavioral finance provide evidence that investors are subject to various behavioral biases. One such bias is 'home bias'. [French and Poterba \(1991\)](#), [Ivkovic and Weisbenner \(2005\)](#), and [Grinblatt and Keloharju \(2001\)](#) report that investors often focus on local stocks in their investments.

Another bias is overconfidence bias. The effect of overconfidence in financial markets is studied and documented. For example, [Odean \(1998\)](#) finds that overconfidence increases trading volume, volatility and liquidity in markets. Overconfident traders have under-diversified portfolios. [Odean \(1998\)](#) reports that traders believe their information is superior to others and they overestimate their abilities. Findings also show that overconfident traders have lower returns and riskier portfolios. [Barber and Odean \(2000\)](#) confirm that investors with the most active trades have lower returns. [Graham et al. \(2009\)](#) report that if investors are more competent they are less subject to home bias but they trade more compared to other investors.

[De Long et al. \(1990\)](#), taking a contrary view, show that overconfident traders have higher expected returns because they may assess risk incorrectly. Noise traders who act irrationally with less information can change the direction of prices from fundamental values. Therefore, sophisticated investors may refrain from holding positions against them. [Gervais and Odean \(1997\)](#) note that there is a survivorship bias among traders, as over time unsuccessful traders will disappear from markets and successful traders will control more wealth and become overconfident. This outcome proves that the process of becoming wealthy leads traders to become overconfident. [Georgarakos and Inderst \(2011\)](#) use financial competence and show that financial advice is more important for investors with low perceived financial competence. [Hoffmann et al. \(2010\)](#), using brokerage customers in the Netherlands, find that investors using fundamental analysis are more likely to be risk-takers, have high trading volumes, and be overconfident.

¹ World Federation of Exchanges, September 2012, available online at <http://www.world-exchanges.org/statistics/monthly-reports>.

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