Title: **QUANTIFYING BEHAVIORAL FINANCE**

Speaker: **ROBERT J. SHILLER**
Yale University

Importance: Why this matters:

Shiller's work is based on a belief that it is highly desirable and possible to work behavioral phenomena into the framework of quantitative models of financial behavior.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."

Shiller has been searching for information on the effects of belief systems, and trying to relate how those beliefs lead to economic behavior. His data go back as far as the late 1800's. As an example, Shiller surveys individual and institutional investors for their opinion on such questions as "are stocks the best investment?" and relates those aggregated opinions to economic variables such as stock market indexes.

Innovation: Are there new techniques of interest in the data or approach to the problem?

Shiller's theory of speculative bubbles is that these bubbles are driven initially by an unusual confluence of an array of precipitating factors. Many of these factors are *stories,* often human interest stories (narrative basis for human thinking.) Bubbles reach epidemic proportions with amplification (feedback) mechanisms. He searches for evidence of biases such as wishful thinking, selective attention, and other behavioral biases.

Insights: 1-2-3, what are the three most important things the speaker offered?

1. Newspapers hype events, particularly negative events, functioning as storytellers. People react quickly and viscerally to these signals; much more strongly if the news is on the front page rather than on the back pages.

2. Investors vastly over-estimate the probability of catastrophic events such as market crashes. They also overestimate the effects on investment prospects of unrelated events such as distant earthquakes. Negativity breeds negativity.

3. Behavioral finance has many opportunities for quantitative research, and is certainly just as relevant.

Audience rating: 3.90