BOOK REVIEW: "BEHAVIORAL FINANCE AND WEALTH MANAGEMENT: MARKET ANOMALIES, INVESTORS' BEHAVIOR AND THE ROLE OF FINANCIAL ADVISORS"

by

Enrico Maria Cervellati, Natascia Angelini, and Gian Paolo Stella
(Virtus Interpress, 2024)

Enrico Maria Cervellati *

* Link Campus University of Rome, Rome, Italy

How to cite this paper: Cervellati, E. M. (2023). [Review of the book *Behavioral finance and wealth management: Market anomalies, investors' behavior and the role of financial advisors* by E. M. Cervellati, N. Angelini, & G. P. Stella]. *Business Performance Review, 1*(2), 48–49. https://doi.org/10.22495/bprv1i2p4

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ISSN Print: 3005-6829
ISSN Online: 3005-6810

Received: 08.02.2024
Accepted: 08.02.2024

JEL Classification: G40, G41
DOI: 10.22495/bprv1i2p4

The book *"Behavioral Finance and Wealth Management: Market Anomalies, Investors' Behavior and the Role of Financial Advisors"* presents an examination of the intricate relationship between human behavior and financial decision-making, with particular regard to wealth management.

The first chapter is dedicated to the behavioral foundations, delving into the origin and progression of behavioral economics and finance, it explores cognitive and emotional biases such as confirmation bias, hindsight bias, the illusion of knowledge and the illusion of control, over-optimism, and overconfidence, as well as status quo bias. The intricacies of heuristics like effect, anchoring, availability, familiarity, and representativeness are discussed. The chapter also covers framing effects, including loss aversion, aversion to a sure loss, and mental accounting, and concludes with a focus on debiasing techniques and choices under uncertainty, highlighting prospect theory.

The second chapter proposes key market anomalies and individual investors' behaviors. Among market anomalies, we consider calendar or seasonal anomalies, cross-section anomalies, event-based anomalies, momentum, and reversal. A deep dive into individual trading behaviors uncovers reasons for underperformance and phenomena such as the disposition effect and under-diversification. The chapter includes a section on evidence from Italy, discussing overconfidence in trading and attention-grabbing behaviors.

The third chapter focuses on the links between behavioral finance and wealth management. This pivotal part of the book integrates behavioral insights into practical wealth management.

It discusses motivational theory, the pitfalls of naive diversification, and the biased perception of risk-reward ratios. Behavioral portfolio theory, mental accounting in the context of investment pyramids, and behavioral goals-based wealth management are explored. The chapter examines behavioral profiling beyond risk tolerance, addressing aspects like overconfidence, the role of luck and competence, and the importance of trust and life satisfaction in financial decision-making.

By dissecting biases, market anomalies, and investors' behaviors, the book provides valuable insights for investors, financial advisors, and anyone interested in the intersection of behavioral finance and wealth management.

Nowadays, it is vital for financial advisors to better understand the behavioral issues related to wealth management. As a matter of fact, while it is crucial to know the technicalities of the profession, traditional models assuming agents' perfect rationality are too far from reality, thus they are not able to truly support advisors in their duty to assist and support clients.

Knowledge of behavioral biases, heuristics, and framing effects is the base for understanding real investors' behaviors.

Market anomalies are so recurrent that they are now called regularities, and intelligent advisors should know them and act accordingly.

Finally, understanding behavioral portfolio theory allows advisors to grasp how their clients truly think about their investments, in terms of safety, then potential rewards, and the role of aspirations.

The book is an open-eye opportunity for many financial advisors and, more in general, professionals in the wealth management sector.