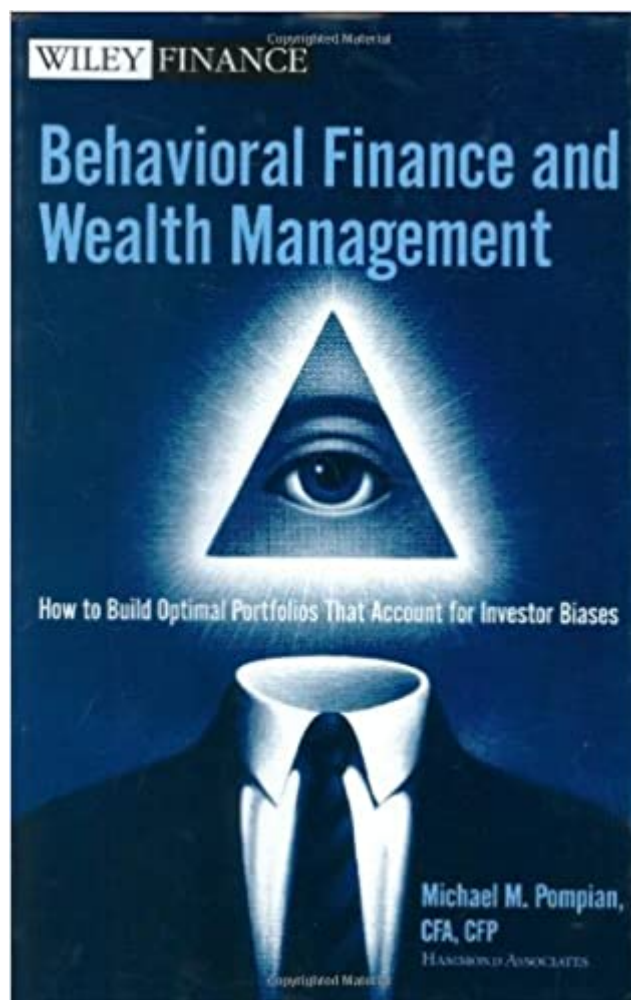




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Behavioral Finance And Wealth Management: How To Build Optimal Portfolios That Account For Investor Biases (Wiley Finance)



Synopsis

"Pompian is handing you the magic book, the one that reveals your behavioral flaws and shows you how to avoid them. The tricks to success are here. Read and do not stop until you are one of very few magicians." —Arnold S. Wood, President and Chief Executive Officer, Martingale Asset Management

Fear and greed drive markets, as well as good and bad investment decision-making. In *Behavioral Finance and Wealth Management*, financial expert Michael Pompian shows you, whether you're an investor or a financial advisor, how to make better investment decisions by employing behavioral finance research. Pompian takes a practical approach to the science of behavioral finance and puts it to use in the real world. He reveals 20 of the most prominent individual investor biases and helps you properly modify your asset allocation decisions based on the latest research on behavioral anomalies of individual investors.

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Customer Reviews

Although fear and greed have always driven the markets, as well as good and bad investment decision-making; behavioral finance as a discipline has only recently attracted serious attention from both financial professionals and investors. Given the run up in stock prices during the late 1990s, and the subsequent popping of the technology bubble, understanding investor behavior is now more important than ever. As a wealth manager and practitioner at the forefront of the practical application of behavioral finance, Michael Pompian understands the behavioral biases that investors have. Through his experiences, he has discovered specific ways to

adjust investment programs for these biases, and now he shares these findings in Behavioral Finance and Wealth Management. Comprising four distinct parts, Behavioral Finance and Wealth Management is a comprehensive guide to both understanding irrational investor behavior and creating portfolios for individual investors that account for these behaviors. Part One provides a straightforward introduction to the practical application of behavioral finance. These chapters include an overview of what behavioral finance is on an individual level, a history of behavioral finance, and an introduction to incorporating investor behavior into the asset allocation process. Part Two contains a detailed review of some of the most commonly found biases, complete with general and technical descriptions, practical applications, research reviews, implications for investors, diagnostic tests, and advice on managing the effects of each bias. Part Three takes the concepts presented in the first two parts and pulls them together in the form of case studies, which clearly demonstrate how practitioners and investors can use behavioral finance in real-world settings. Part Four explores some special topics in the practical application of behavioral finance, with an eye toward the future of what might lie ahead for the next phase of this discipline.

Praise for Behavioral Finance and Wealth Management "Pompian is handing you the magic book, the one that reveals your behavioral flaws and shows you how to avoid them. The tricks to success are here. Read and do not stop until you are one of very few magicians." —Arnold S. Wood, President and Chief Executive Officer Martingale Asset Management "I wish this book had been available a decade ago; by understanding behavioral biases, clients and professionals can stay focused and comfortable throughout the markets' bubbles and doldrums. Michael Pompian moves our profession forward by proposing a standardized structure for this approach." —Elizabeth K. Miller, CFA, Managing Director Trevor Stewart Burton & Jacobsen Inc., and former chair of the New York Society of Security Analysts' Wealth Management Committee "Many inefficiencies in the market are the result of how investors let their emotions dictate their investment decisions. Michael Pompian's work provides a framework to understand why these inefficiencies exist, and how they can provide investors with significant profit-making opportunities." —Stanley G. Lee, CFA, Principal, David J. Greene & Company, LLC "Michael Pompian has created a valuable resource for investors and those in the wealth management community by not only explaining a number of important behavioral biases, but also giving them actionable steps to reduce biases and improve investment performance." —John M. Longo, PhD, CFA, Senior Vice President Investment Strategy, the MDE Group, Inc., and Adjunct Professor of Finance at Rutgers University Graduate School of Management

This book has some good practical advice. Much of it was not very useful to me, either because (a) it was already obvious to me, or (b) it was directed at financial advisers, and I am an individual investor, not an adviser. However, I'm sure that there are many people for whom almost all the advice would be useful and needed. The book contains minor mistakes here and there (mostly copyediting), and one major mistake: The author thinks that risk aversion is a fallacy or some form of irrationality. (This is clear in his remarks on pp. 214, 252.) In this, Pompian is implicitly rejecting a universally accepted principle of economics: the Law of Diminishing Marginal Utility (roughly, that the value of an additional dollar diminishes as your total wealth increases). This is important, because this Law is the central reason, e.g., why it often makes sense to purchase insurance, why it makes sense to hedge bets, and why investors need to balance risk against potential reward. Failure to understand this could be a pretty serious problem for an investment adviser.

This is written more as a textbook for finance majors. I was looking for something more relatable to my bad retail trading. How to identify my foibles easily and work with or around them. I am sure the contents are good I just couldn't make headway with the textbook manner in which it's written. I don't need a history of behavioral finance just help with my buy the top sell the bottom psychology.

Mr. Pompian has written a valuable introduction to the field of applied behavioral finance. He structures the book such that different behavioral biases are presented in short, technical, and applied discussions. This layout is helpful if the reader is looking for a modular reference book (or learns well within that pattern), but it makes the book difficult for those who desire a greater narrative flow. The ideal reader for this book is well defined: the practicing wealth manager who seeks to better adapt his or her practice to clients (or, if necessary, vice versa) without sacrificing the integrity of rational investment strategy. It is important to note that Mr. Pompian's names, descriptions, and classifications of behavioral biases are not complete and established truth; other authors present different takes on various biases. Mr. Pompian here wins plaudits for being more thorough than most in the number of biases covered, though I found a few of his characterizations somewhat overlapping one another due to the sheer number of biases presented. He is also quite good at citing references and further reading: this book is quite well placed in the technicality spectrum as written for the practitioner -- neither simple enough for the layperson, nor sufficiently rigorous for the academic. Other texts work better for those who require more or less of a technical presentation. To sum: this book is one of several potential good introductory texts to behavioral

finance, but non-practitioners will likely find it lacking.

Especially in these crazy financial times, this is a good book to do some self-analysis through little quizzes and learn how emotions can take over from making good, rational financial decisions. While somewhat geared for financial advisors, it definitely is readable for the intelligent investor who can take the time to read and apply the lessons learned from this book.

One of the most important books on the subject of behavioural finance. Covers the subject in a comprehensive manner and provides great insights for constructing investment portfolios which are rational and closer to investor behaviour. Provides an excellent tool for enhancing real life returns of investor.

I first read this book, and then a few weeks later read Jason Zweig's Your Money and Your Brain. Pompian's book wins hands down from a practical viewpoint.....how you can use behavioral finance findings as an investor or investment advisor. Pompian lists all 20 common biases, and then gives examples of how to deal with them. I also enjoyed his section on using Briggs Myers test results coupled with behavioral finance principles.....to develop better financial plans which fit people better. Zweig's book is a fascinating read.....but when I got done.....my question was.....How to I apply these behavioral finance findings to my investments or my client's financial plans? I would have to re-read Zweig's book.....and develop the practical uses myself from his book. It is interesting that Zweig's book at \$17 has a sales rank of 2,075.....and Pompian's book at \$38 is only ranked 38,940. I have always enjoyed reading Zweig's columns in Money magazine. It is interesting to see where future research is headed in Zweig's book.....but in my opinion; you get more practical advice (or value) for the dollar from Pompian's book than Zweig's book. To compliment this book.....I would suggest a couple good books on index fund investing and asset allocation. The Richest Man in Babylon Bogle on Mutual Funds: New Perspectives for the Intelligent Investor The Millionaire Next Door The Four Pillars of Investing: Lessons for Building a Winning Portfolio A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing, Ninth Edition The Coffeehouse Investor: How to Build Wealth, Ignore Wall Street, and Get On With Your Life The Bogleheads' Guide to Investing

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