Abstract

Are we building portfolios for investors or for fund managers? Behavioural Finance Implications in Superannuation Investing.

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Utility, or happiness of consumption, provides the cornerstone of many models underpinning investor interactions in the market. More recently however, contemporary thinking has started to appreciate that investor utilities are quadratic, and that our models of portfolios will need to take this into account. This paper briefly traces the development of behavioural finance, and how it has shaped more contemporary models of utility. The paper then proposes an approach that derives a quantitative expression of investor utilities developed through the partial choice task tradeoffs. It then applies this quantification to derive an expression of risk and provides implications for portfolio construction.

The paper briefly discusses the implications of these investor reactions to market efficiency, and touches on future research into the implications of sentiment by professional market analysts.