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Explanation of the Reduction of Consequences of the Behavioral Finance Biases on the Banking System Recession

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Abstract: The Purpose of this research is Desing and Explanation of the Reduction of Consequences of the Behavioral Finance Biases on the Banking System Recession. This research examines a new conceptual model by using of scientific resources and obtained data from the viewpoint of sample tested, it is in applied researches of goal. The research is applied of purpose and it is descriptive- analytical in method. We used of Delphi and Grounded Theory method test for data collection. The statistical population of the research is "Private Banks and Credit Institutions of Iran".

Key words: Behavioral finance, Behavioral biases, NeuroEconomics, NeuroFinance, Banking System.

1. INTRODUCTION

'Behavioral Finance for Private Banking: From the Art of Advice to the Science of Advice' is nonetheless a far-reaching architecture for client-centric bespoke private wealth management, entailing a symbiosis of behavioral finance and private banking, handling state-of-the-art domains of FinTech and neuroscience. This is a complete manual for every worldwide private banker as it encompasses investment decision-making theory and behavioral biases, highlighting cultural differences thus catering for international clientele and concluding with individualized tailored wealth management strategy creation. (Bachmann k, et al, 2019) Kahneman and Tversky's research on prospect theory has had an even greater impact, at least in economics, than their work on judgment. Reacting to the hegemonic position of expected-utility as a theory of decision under conditions of risk, they demonstrated experimentally that people systematically deviate from the predictions of expected utility-theory and some of the axioms upon which it is based[1] (Jack, 1997).The cognitive interpretation of judgmental biases was in part a reaction to earlier treatments that viewed beliefs as motivated, but the reaction went too far. Thus, the most important judgmental bias may well be the unreasonable optimism with which most people approach their future and the consequences of their actions (Taylor and Brown, 1988). Although cognitive factors contribute to this bias (Kahneman and Lovallo, 1991), a satisfactory account of wishful beliefs will surely involve emotional and motivational factors. It makes little sense for the boundary of the field to pass through the middle of this problem.

2. PREVIOUS RESEARCH

Definition of Behavioral finance supposes two important aspects individual investors and entire market. In other words Behavioral finance in a broad sense is divided to macro Behavioral finance and micro Behavioral finance (Pompian, 2006) As for the definition of Behavioral finance in the early XVIII century, Adam Smith in The

1 _ The evidence is quite robust. Findings of departures from rationality have been confirmed with subjects of considerable expertise in probability and statistics, including medical professionals, and it has been supported by empirical studies of investment and insurance behavior (Kahneman and Tversky 2000).

Theory of Moral Sentiments determined mental and emotional human interaction and communication basics. The author basing on such Behavioral elements as pride, disgrace, insecurity, egoism tried to explain the actions of a man and the pursuit of profit (Smith, 1998). However, from the beginning of the XIX century when economics was dominated by neoclassical theories, psychology was displaced from the factors which have an effect on discourse of economy until the mid of XX century. (De Bondt & Thaler, 1985). Fluctuations. Goldberg and Von Nitzsch (1999) defined Behavioral finance as financial market theory oriented towards behavior ; subject which is applied to facts that people behave rationally only within specific limits. Thaler (1999) stated that Behavioral finance is an integration of classical economics and financial theories within studies investigating psychology and decision making. Fuller (2000), Fromlet (2001) and Jordan and Miller (2008) explained behavioral finance via individuals attitude and emotions in investment decision making process and market prices. Ritter (2003) stated that Behavioral finance strives to supplement standard financial theories introducing psychological dimension into decision-making process, while Levy and Post (2005) explained Behavioral finance as theories, able to explain market inefficiency and market anomalies. Parallel to these opinions are Bodie et al. (2007) who describe Behavioral finance as a set of models of financial markets that emphasizes potential intervention of psychological factors into investors behavior . Financial behavior was widely studied by Sewell (2007), who made an overview of the development of this science and described the most distinguished scholars. Basic Behavioral factors affecting investor according to Fischer and Gerhardt (2007) Hon-Snir et al. (2012) in their study found out that more proficient investors are less affected by the behavior biases. The authors examined five Behavioral biases in decision-making process in the stock market and differences of possible individual solutions due to these Behavioral deviations: disposition effect, herd behavior , availability heuristic, gambler's fallacy and hot hand fallacy.

Table 1. Behavioral Finance Theories

Researcher Name	**Year**	**Theory/ Concept/ Model**
Herbert Simon	1955	Models of bounded rationality
Festinger, Riecken and Schachter	1956	Theory of cognitive dissonance
Tversky and Kahneman	1973, 1974	Introduced heuristic biases: availability, representativeness, anchoring and adjustment
Kahneman and Tversky	1979	The prospect theory, introduced loss aversion bias
Tversky and Kahneman	1981	Introduced Framing Bias
Richard Thaler	1985	Introduced mental accounting bias
De Bondt and Thaler	1985	Theory of overreaction in stock markets
Barberis, Shleifer and Vishny	1998	Investor sentiment model for under reaction and overreaction of stock prices
Meir Statman	1999	Behavioral asset pricing theory and Behavioral portfolio theory
Andrei Shleifer	2000	Linkage of Behavioral finance with efficient market hypothesis to find that stock markets are inefficient
Barberis, Huang and Santos	2001	Incorporation of prospect theory in asset prices
Grinblatt and Keloharju	2001	Role of Behavioral factors in determining trading behavior
Hubert Fromlet	2001	Importance of Behavioral finance. Emphasis on departure from ‘homo economic us’ or traditional paradigm to more realistic paradigm
Barberis and Thaler	2003	Survey of Behavioral Finance
Coval and Shumway	2006	Effect of Behavioral biases on stock prices. The price reversal for biased investors is quicker than unbiased investors
Avanidhar Subrahmanyam	2008	Normative implications of Behavioral finance on individual investors and CEO’s
Richard Thaler	2008	Impact of mental accounting on consumer choice behavior
Robert Bloomfield	2010	Compares the Behavioral and traditional finance approach in explaining market inefficiencies
Parag Parikh	2011	Practical implications of Behavioral finance and investor sentiments in value investing
Uzar and Akkaya	2013	Explores the evolution of Behavioral finance from traditional finance

Kapoor. S, Prosad J M. (2017)

Neurofinance strives to understand financial decision making by combining insights from fields such as psychology and neuroscience with traditional theories of finance. In addition to explaining individual and market behavior as a function of classic financial variables, it aims to explain how neural and physiological signals relate and give rise to individual differences in financial decision making. (Cohen, 2005; Rangel, Camerer, & Montague, 2008)

in addition to the importance of specific brain areas to the decision process, there is also evidence that the neurotransmitter dopamine may transmit information about uncertainty throughout the cortex. Dopaminergic[2] neurons are strongly involved in the reward process and become highly active after an unexpected reward occurs.(Fiorillo,2003)

3. RESEARCH METHOD

Recent research has tried to Desing and Explanation of the Reduction of Consequences of the Behavioral Finance Biases on the Banking System Recession.

Attention to the objectives and questions of research, it is an applied research of benefit and motivation. The research statistical population is Banking System IRAN. This research examines a new conceptual model by using of scientific resources and obtained data from the viewpoint of sample tested, it is in applied researches of goal. Therefore the research is practical and use of the descriptive-analysis method. Grounded theory was first presented by Glaser and Strauss in their book The Discovery of Grounded Theory. The text provided a strong intellectual rationale for using qualitative research to develop theoretical analysis. It was largely a protest against a methodological climate in which the role of qualitative research was viewed as preliminary to the 'real' methodologies of quantitative research (Charmaz, 1983).

Table 2. The name of the relation*

Concession Facility to Individuals' Deposits	%73
Concession Facility to Total Deposits	%69
Non-current claims to concessional facilities	%15
Save facilities and demands on concessional facilities	%7
Save facilities and claims on non-current claims	%45

*February 2019

Figure 1. The main dopaminergic pathways of the human brain

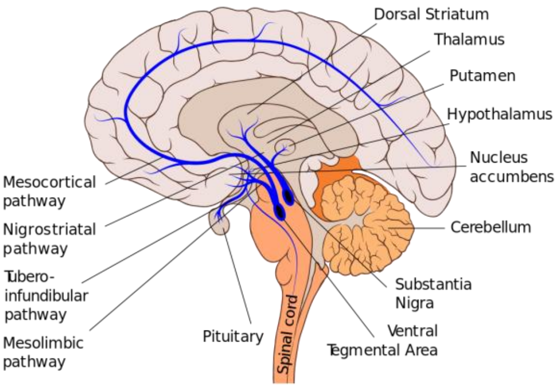

Figure 1. The main dopaminergic pathways of the human brain.

2 - Dopaminergic pathways are involved in many functions such as executive function, learning, reward, motivation, and neuroendocrine control.(*Alcaro, 2017*) The main dopaminergic pathways of the human brain.

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Table 3. Research Banks

Row	Bank name	Row	Bank name
1	ENBANK	2	SINA
3	ANSAR	4	SHAHR
5	IRANZAMIN	6	KARAFARIN
7	AYANDE	8	GARDESHGARI
9	PARSIAN	10	MIDDLE EAST
11	PASARGAD	12	HEKMAT IRANIAN
13	TOSSE	14	KOSAR
15	DEY	16	MELAL
17	SAMAN	18	GHAVAMIN
19	SARMAYE		

4. SUMMARY AND CONCLUDING REMARKS

In lieu of conclusion, the prophecy of ‘The Father of Behavioral Finance’ Richard Thaler, Nobel Prize Winner: “I predict that in the not-too-distant future, the term ‘behavioral finance’ will be correctly viewed as a redundant phrase. What other kind of finance is there? In their enlightenment, economists will routinely incorporate as much ‘behavior’ into their models as they observe in the real world. After all, to do otherwise would be irrational” (Thaler, 1999).

Therefore, Subrahmanyam (2007), like Tseng (2006), offers to combine the traditional financial theories that support the rationality with the Behavioral finance theory, which predicts that investors' behavior is not always in line with the criteria of rationality. Subrahmanyam concludes that the financial behavior properly supplements traditional financial theories. It may help to predict not only the expected returns, but also provide events that influence the return

I discuss the difference between a heuristic and a bias in decision-making. A heuristic is a cognitive shortcut that allows you to make faster rough decisions that are often “good enough.” A bias in decision-making occurs when the choices you make systematically differs from the optimal choice.

In addition to explaining individual and market behavior as a function of classic financial variables, it aims to explain how neural and physiological signals relate and give rise to individual differences in financial decision making. Substantial evidence indicates that dopamine neurons of the primate ventral midbrain code errors in the prediction of reward.

The appended rules could substantially mitigate the effects of stated biases:

- Try to focus on the facts and not the stories.
- More information doesn’t equal better information.
- Don’t overweight personal experience.
- Failure cannot be attributed to bad luck alone. Examine mistakes to improve your performance.
- Don’t value something more, simply because you own it.
- Don’t take information at face value. Think carefully about how it was presented to you.
- You know less than you think you do.
- Look for information that disagrees with you.
- Think whether a piece of information is high strength and low weight, or low strength and high weight.
- Big, vivid, easy to recall events are less likely than you think they are.
- Set up sensible valuation framework. Replace the unimportant with the relevant.
- Judge things by how statistically likely they are, not how they appear.
- Sell your losers and ride your winners.

Table 4. Rating Model of Research

DESING OF THE REDUCTION OF REDUCTION CONSEQUENCES OF THE EFFECTIVE BEHAVIORAL BIASES IN THE BANKING SYSTEM RECESSION

SELF DESCRIPTION (LIMITS TO LEARNING)	Overoptimism (Illusion of Control) (Illusion of Knowledge)
	Overconfidence
	Self Attribution Bias
	Confirmation Bias
	Hindsight Bias
	Cognitive Dissonance
	Conservatism Bias
HEURISTIC SIMPLICATION (INFORMATION PROCESSING ERRORS)	Framing
	Categorization
	Representativeness
	Anchoring/ Saliance
EMOTION/EFFECT	Self Control (Hyperbolic Discounting)
	Ambiguity Aversion
	Regret Theory
	Mood
SOCIAL	Contagion
	Herding
	Cascades

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