Behavioural Finance

How psychology shows up in market prices.

Economics

Documented anomalies.

Anomalies

- Momentum and long-run reversal
- Excess volatility relative to fundamentals
- Disposition effect — selling winners
- Home bias in portfolios
- Bubbles and crashes

Explanations offered

- Limits to arbitrage
- Herding and information cascades
- Feedback trading
- Slow diffusion of information

> Limits to arbitrage matter: even a trader who spots a mispricing may not be able to bet against it long enough to profit.