

BUSINESS

Investors' Behavior Called Irrational

Finance expert
speaks at forum

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With the U.S. stock market rebounding and other signs of recovery on the horizon, about 25 investors gathered this week in Camarillo to hear from an expert on "behavioral economics."

"For many years, the assumption was that investors are rational, that they behave reasonably. So the tools that are used to make investments are rational tools," said Somnath Basu, a professor of finance and director of the California Institute of Finance at California Lutheran University in Thousand Oaks. "But around the 1970s, another theory took hold, and that was that investors do not necessarily act rationally."

Appearing Wednesday night at the Camarillo Chamber of Commerce building at a forum hosted by Lifetime Planning of Camarillo, Basu discussed research he has done on behavioral economics – the study of investors and individuals in the marketplace.

"Finance is a relatively new science," said Basu. "It's about 40 years old. Before this, it was all one study called economics."

Basu said that in 2002, professor Vernon Smith, under whom he studied at the University of Arizona, and professor Daniel Kahnemann, a psychologist, won the Nobel Prize in economics based on their study of behaviors in markets.

"In the early 2000s, I watched the dot-com bust and the real estate boom and I thought, 'None of this is rational. It's emotional,'" said Basu. "So the more I got interested, the more research I did."

Bringing charts and graphs that showed how

investors almost always behave irrationally, Basu spoke about how it may well be hard-wired into our minds.

"Our frontal lobe, the analytical part of our brain, doesn't always take control when we invest. Our limbic system does, and that is the part that is mammalian or reptilian. It responds out of survival mode," he said. "This behavior is systemic. If you are 30 years old, you don't fear retirement, and so you don't think about investing. But if you're 55 or 60, you're thinking about it all the time – even obsessed with it, especially if you haven't invested well."

David M. Smith, co-owner of Lifetime Planning, holds the forums four times a year to give the public an opportunity to learn about investing. "We like to review what's happening with investments and the economy," said Smith. "We like to get different perspectives from various people as well."

"It's an incredibly interesting subject," Ken Kossoff, 51, of Oak Park said of Wednesday's talk. "I wish more people knew about it. We really do follow the herd mentality."

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