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BEHAVIOUR OF INDIVIDUALS AND INSTITUTIONS IN RELATION TO FINANCE AND ACCOUNTING

Selçuk BALI*

Abstract

This study seeks to delve into the depths of the behaviour of individuals and institutions in relation to finance and accounting and the end effects on markets performance. It is based on a research that digs up informations on the history, models and theories that sum up the whole concept. The research also seeks to determine the reliability of assumptions and neo classical thoughts of experts. Main relationships explored include consumers, market prices, attitudes and relationship between finance and accounting among others. The main topics explored throughout the article include models and counter criticisms. This article is thus geared towards shedding more light on these matters in the hope that a better understanding of the addressed topics will result in an informed and appropriate application of the same.

Key Words: Behavioural Finance, Behavioural Accounting, Bias.

1. Introduction to Behavioural Finance

This is a subject that involves the study of psychological influence on financial matters and the end results on the markets. This behaviour is mostly quantified to practices by financial practitioners and seeks to show the reasons why markets are inefficient. Social, cognitive and emotional issues are utilized in understanding financial and economic decisions arrived at by individuals and institutions. As a whole, these decisions give way to economic functions such as consumers, borrowers and investors and the overall effect on market prices, resource allocation and final returns on investment. Rationale boundaries such as selfishness and self control are a major concern to analysts who consider public choice and integrate insights from psychology and neo classical economic theory to try and sort out the puzzles (Sewell, 2007: 1-9).

The history of the studies related to this subject dates back to the forefathers of economics such as Adam Smith who worked on the belief that price movements highly depended on an individual's mental attitude. Theories such as "The Theory of Moral Sentiments (1759)" sought psychological explanations of individual behaviour and underpinnings of the utility.

However, with time, other concepts began creeping in and totally changed the whole direction of the topic. This is indicated in the concept of dissonance which states that when two

* Asist. Prof. Dr., Ordu University, Vocational School, Department of Accounting and Tax.

subsequent notions tend to be inconsistent then ones mind begins to dissuade leading to a shift in the person's belief. During neo-classical economics, experts reshaped the field to become a natural science deducing and developing homo economicus as a concept leading to unforeseen errors (Festinger, Riecken and Schachter, 1956: 3-32).

According to Pratt (1964: 122-136), other factors such as utility functions, risk aversion and risks are considered a proportion of total assets. He goes ahead to state that experimentally observed behaviour has limited application to market situations, noting that theories such as prospect theory, are decision making models applicable to particular problems.

All in all, the main issue is to explain why market participants make systematic errors which affect prices and returns, creating market inefficiencies. These inefficiencies include under or overreaction to information which serve as causes to market trends as well as in cases of bubbles and crashes. DeBondt and Thaler (1985: 793-805) opine that overreaction to past information is a broad prediction of the behavioural decision theory put forward by Kahneman and Tversky (Fama, 1998: 283-306).

Asymmetry between decisions to acquire or keep resources is another aspect of behavioural finance. This scenario is known as bird in the bush paradox and loss aversion; the unwillingness to let go of a valued possession. This explains why housing prices rarely decline to market clearing levels.

1.1. The Relationship Between Finance and Behavioural Finance

Traditionally, people have been expected and assumed to behave in such a manner as to maximize utilities, consequently leading to the expectation of individuals in financial circles to be homo economicus as opposed to the typical homo sapiens. As such, the homo economicus should make perfectly rational decisions, should exert unlimited processing power to any available information, and should hold preferences well-described by standard expected utility theory (Bloomfield, 2010). Statman (1999: 18-27) thus describes standard (traditional) finance as "the body of knowledge built on the pillars of the arbitrage pillars of Miller and Modigliani, the portfolio principles of Markowitz, the capital asset pricing theory of Sharpe, Lintner and Black and the option-pricing theory of Black, Scholes and Merton" Nevertheless, behavioural science does not recognize homo economicus as an accurate depiction of real-life people and targets to present a more accurate man in characteristic economic settings.

Bloomfield (2010) proposes a three-dimensional model to illustrate the resemblances and dissimilarities between traditional finance and behavioural finance. This model has three dimensions namely the institution being studied, the theory from which hypotheses are described, and the methods used to demonstrate results.

The main connection between finance and behavioural finance centers on issues that include investment, indicators and escalation among others. There exist several psychological traps that can dupe investment analysts who might give disproportionate weight to the first information received about a subject. This is escalated by status quo bias which makes recent observations in forecasts, overconfidence in forecasts and confirming evidence.

Sentimental indicators help relate finance to finance behaviour by monitoring the activity of market participants such as floor traders, insiders, mutual fund managers among other sub factors. This is evident by the fact that some investors tend to consider future events based on previous events. The importance of this scenario is that it identifies major turning points in the markets.

Escalation bias occurs where investors put in more money in losing investments rather than ongoing successful investment due to averaging down when reducing the price on single projects. Conventionally, traditional finance models would expect investors to re-evaluate holdings negatively and consider exiting and taking their losses.

Stocks priced at low multiple book values tend to perform better result from risk factor not captured by beta. This is known as value premium which is attributed to risk factors.

Researches on behavioural finance indicate that markets are not fully efficient due to short term momentum and long term reversals in pricing. This phenomenon is best described by long term return reversals propagated by overreaction and taxes.

Behavioural finance also has an effect on investing in what is termed as “affect in a behavioural asset pricing model”. Affect can be termed as the impulsive sensations investors show towards a particular company, which in other terms is referred to as one’s gut feeling. These gut feelings have often played a vital role in the valuation of investments as well as the pricing of assets. Interestingly, experiments have demonstrated that subjective risk is concomitant to negative affect which commonly manifests as a high perceived risk and high returns, which is also frequently the case where objective high risk factors such as the ones in Fama-French 3 Factor Model or the CAPM risk often lead to higher returns.

A branch of behavioural finance known as prospect theory delves into the matters pertaining to why the utility of investors depends on deviations from moving points and not real wealth. This is well-illustrated by investors holding on declined stocks for too long, and then selling them very quickly when their prices go up.

Studies indicate that semi-strong form of the efficient market hypothesis holding leads to investors not earning excess risk adjusted returns. Prediction of returns has not succeeded in predicting short term returns. On the flipside, however, they have been relatively successful with long term returns. Higher long returns for stocks can well be predicted using high dividend yields, high default spreads and high term structure spreads.

Earlier theories have created an assumption that investors tend to act rationally so as to maximize profits. Investor characters that appropriately explain the case include practitioners identifying opportunities to profit from exploiting biases of other investors. However, security market information should have no relationship with future returns if weak form of efficient market hypothesis holds.

1.2. Basic Concepts of Behavioural Finance

This section seeks to explore key concepts that lead and guide in this field of finance. Some of the concepts may seem improbable or lacking logic but have generally been observed to be fairly prevalent in certain financial situations.

1.2.1. Anchoring

Anchoring is one of the major concepts that tend to attach an individuals line of thought to a reference point especially when people are dealing with new concepts. It is the decision making process where quantitative assessments are required and where these assessments may be influenced by suggestions (Johnsson, Lindblom and Platan, 2002). It occurs where individuals hold on to certain reference point or “anchors” but on reception of new information shift the previous reference inadequately. Investors may refer to irrelevant figures and statistics in anchoring incidents because of a lack of established economic theories to help them establish values in inherently ambiguous markets. Historical prices, the most recent prices or price changes of other stocks may also be used as anchors. Shiller (1998) noted that with the increase in the ambiguity of the value of an item, there also came about a rise in the importance of suggestions and the more the likelihood of adoption of anchoring as the means of determining the price of the said item.

1.2.2. Mental Accounting

The second concept is mental accounting is that can be defined as the way people categorize their money for separate accounts based on factors such as source of money and intended purpose of the money. An illustration of mental accounting is a situation where an

individual has sets aside money for his children's college fund or a new house. It would be very difficult for such a person to spend that money as it is a very important account to him. Shiller (1998) describes mental accounting as the tendency of people to place certain events into certain mental accounts according to superficial attributes. Apart from mental accounts being able to be separated with respect to time, they can also be isolated according to their content (Goldberg and von Nitsch, 2001: 31-84).

Mental accounting may also manifest in the form of consistent investment in non-profitable enterprises in the belief that one will recoup the money pumped into the investments. Additionally, this phenomenon may be employed as a means of moderating struggles pertaining to self-control. In such situations an individual may set-up distinct accounts that are inaccessible to their uncontrollable compulsions (Shefrin and Thaler, 1988: 609-643). One way of overcoming mental accounting issues is by understanding that regardless of the source, all money is the same.

1.2.3. Confirmation and Hindsight Bias

The common belief of "seeing is believing" as used by many is not a true representation of reality. This concept is known as confirmation and hindsight bias. People tend to have preconceived opinions on others or events on first encounter hence, selectively filtering information and paying more attention to information that supports their opinions. This is exactly what happens in investing where an investor will be more comfortable with information that supports original thoughts about an investment as opposed to different information. Another side of it is that an investor will think the outcome of an event was obviously predictable while this is not true. Therefore, to overcome this notion, one needs to find voice of reason in a second opinion.

1.2.4. Gambler's Fallacy

Incorrect assumptions and predictions of events led to by probability and lack of understanding is what is termed as the gambler's fallacy. One has a line of thinking that points to an event likely happening following a series of events. This is totally wrong and ill advised especially in investing where for instance one thinks that since stocks have gone up consecutively, they will not go up again. When investing, investors ought to base their decisions on fundamental and or technical analysis but not on pre existing events.

1.2.5. Herd Behaviour

It is a form of heuristics- a situation where individuals use practical efforts and experience, trial and error, to come up with "rules of thumb" (Shefrin, 2000). This concept emphasizes the fact that people tend to copy or ape actions of a larger group due to social pleasure of conformity. This is because everyone will want to be a member of a group and to gain entry they have to follow the group. Therefore, many will want to believe that such a large group cannot be wrong. Shiller (2000) supports this, noting that people have learnt that when a large group of people is unanimous in its judgments they are certainly right. Though often appearing to an individual as being a rational decision, even with the knowledge that others are similarly behaving in a herd like manner, such heuristic activities often lead to instabilities in markets in addition to fuelling irrational group activities. This was seen in the early 1990's when many investors put their money in internet related ventures. To avoid falling prey to such temptation, an individual needs to research thoroughly and keep in mind that one person's success cannot predict another person's success.

1.2.6. Overconfidence

Having an overly optimistic assessment of one's ability to perform above a certain level on a particular project has often costed many people both their time as well as their assets. Overconfidence remains a key finding in the understanding of the psychology of judgment needed to judge market anomalies (Johnsson, Lindblom and Platan, 2002). The greater the

confidence an individual has in himself, the higher the risk of overconfidence that especially manifests in areas one is not well informed bearing in mind that self-confidence typically bears no relation to an individual's actual knowledge (Goldberg and von Nitsch, 2001: 31-84). Odean (1998: 1775-1798) observes that overconfident traders perform many trades, believe they are better than others and in the end get lower yields on investment. Overconfidence may also result in a scenario where an individual observes a pattern in actually random data and proceeds to make decisions or investments based on this false observation. It is therefore advisable to acknowledge each set of challenges associated with each investment and try to constantly refine investment techniques.

1.2.7. Overreaction and Availability Bias

There is a common belief that good news tends to raise securities on the stock market. Thaler (1985: 199-214) showed that people tended to overreact to dramatic and unexpected news occurrences. As such, the portfolios of prior "losers" are often seen to outperform those of prior "winners", consistent with the overreaction hypothesis (Johnsson, Lindblom and Platan, 2002). In a study conducted on the New York Stock Exchange, the best performing and worst performing stocks were monitored for three year period. It was noted that the best stock underperformed while the worst stock performed relatively above the index due to overreaction to good and bad news respectively.

Availability bias makes people center on recent information making new opinion biased to latest news. To overcome this, it is advisable to do a thorough research and understand the true significance of recent news.

1.2.8. Prospect Theory

This theory can be described as a mathematically expressed alternative to the expected utility maximization theory. In the expected utility maximization theory, the investors are not averse to risks thus offering with certainty a representation of truly rational behaviour (Johnsson, Lindblom, Platan, 2002). Kahneman and Tversky (1979: 263-292) put forward an idea that people value gains and losses differently hence base their decisions on perceived gains perceived. This can be well explained in a situation where gaining X is better than gaining $2X$ and losing X to remain with a single X equal to the initial X . This line of thought creates an asymmetric value function. This theory proposed the "certainty effect" where investors behaved in such a manner as to show their belief in the impossibility of extremely improbable events happening, and extremely probable events as being likely to happen (Johnsson, Lindblom and Platan, 2002). The prospect theory was also based on value function. This value function fundamentally differed from the utility function in that it had a reference point determined by the subjective impression of each person.

1.3. Factors That Affect Behavioural Aspect of Finance

There exist several factors that affect behavioural finance, in most cases these factors being closely intertwined or linked to the key concepts of behavioural finance. Psychological and emotional factors fall under the category of the main influencers of the choices that are made by an investor. Intelligence is most commonly overruled by emotions in main decision making. On the other hand, most people tend to fear regret and hence many will make every effort to try and avoid anything that can cause regret. If an investor detects the potential of regret in an investment (for instance having a close friend who gambled in an investment that did not pay off), it is likely that the individual will be deterred from such a venture.

One of the key factors that affect behavioural finance is overconfidence. When an a person is too confident in himself it often leads to a higher portfolio turnover and lower returns, it may also result in conservatism or hesitation of investors acting on new information. Additionally, overconfidence could inspire one to persevere (believing things will ameliorate), a person may also ignore new information and it may also lead to loss aversion or propensity of people to hang onto losing stocks longer.

Misinformation and thinking errors also have the capacity to affect behavioural finance. Illustrations of such effects are seen in forecasting errors; individuals overlooking small samples, a lack of the diligence required in one's engagements and contracted framing. In some cases misinformation may result in a person evaluating very few factors before venturing into an investment, misinformation may also lead to biased information gathering in addition to mental accounting.

The financial models used in money management and asset valuation may also affect behavioural finance. These models integrate several key parameters with diverse effects on the behaviour of individuals. Thaler's model of price reactions to information; with two phases namely overreaction and under reaction creates a price trend where either side depends on good or bad news respectively. Empirical research corroborates this with Barberis, Shleifer and Vishny (1998: 307-343) uncovering both underreaction of stock prices to news such as earnings announcements and overreaction of stock prices to a series of good and bad news. Stock image coefficient also has the capacity to influence the discipline of behavioural finance.

1.4. Basic Assumptions and Models of Behavioural Finance

There are two major assumptions that are made in the field of behavioural finance. First, is that those investors will act in unbiased fashions to maximize the value of their portfolios. In this case, it is stated that investors are rational expectants of wealth maximization henceforth forming impartial expectations of the future. Consequently, they will buy and sell securities at high prices in order to maximize future value portfolios.

The other assumption is that people will always engage in economic moves that will foster their economic self-interest. An individual will desire to invest for the future and in places where he/she is able to control the product of the investment.

Accordingly, there are some financial models used in money management and asset valuation which incorporate behavioural finance parameters. Such models include Thaler's Model of price reaction to information, consisting of the under-reaction and overreaction phases.

The stock image coefficient model also is another model closely associated with behavioural finance. This model is used in the valuation of stocks for future predictions of market prices or potential market prices hence profit from the movement.

2. Introduction to Behavioural Accounting

Also known as human resource accounting, behavioural accounting is defined as an accounting technique which considers and integrates human behaviour into accounting decisions in an organization. Behavioural accounting can also be defined as the study of the behaviour of accountants or the behaviour of non-accountants as they are influenced by accounting functions and reports. It cuts across financial, managerial and tax accounting research (Hofstede and Kinard, 1970: 38-54).

Arnold and Sutton (1997) comment that though up to the mid 1960's research in accounting was unreservedly determined by neoclassical assumptions of the functioning of capital markets and rational decision making of its actors, changes have occurred with human beings in the research now being bounded with rationality both as decision-makers and addressees of accounting decisions in organizations. In behavioural accounting, the behaviour of human beings in diverse accounting contexts is explained and predicted.

Behavioural Accounting and Behavioural Accounting Research (BAR) are set up to make transparent the behavioural effects that relate to processes of information gathering, processing, and implementation in accounting systems (Arnold and Sutton, 1997). As such, BAR majors on the relationship between human behaviour, accounting structures, and institutional efficacy.

2.1. The Relationship Between Financial Accounting, Management Accounting and Behavioural Accounting

Financial accounting is a branch of accounting that narrows down on the readying of fiscal statements for decision makers who include proprietors, stock brokers, employees, contractors, banks and government organizations. The focus of financial accounting is majorly outside a company.

Management accounting primarily focuses on the delivery to and utilization of accounting information by managers within businesses, in order to afford them the basis to make informed business choices that will equip them better in their management and control tasks. Horngren (1977: 673-692) describes managerial accounting as designing formal controls that avail goal congruence and incentive through the use of technical tools (Hopper and Powell, 1985: 429-465). Its focus is predominantly within a company.

These two abovementioned divisions of accounting and behavioural accounting rely on different avenues to offer useful information required to make sound economic decisions. Financial accounting is chiefly centered on figures that give an overview of a company's fiscal strength in terms of profitability and in the long run, turn over. Managerial accounting in contrast seeks to review the accountability of an organization. These three divisions consequently enhance one another in guaranteeing the appropriate information needed by the company to carry out crucial economic decisions is accessible. Such decisions encompass mergers, procurements, buy outs, expansion as well as specialization.

In summary, managerial, financial and behavioural accounting synergize to touch general purpose fiscal statements, make available information used by management of a business firm for policy making, scheduling and performance appraisal, and in order to satisfy regulatory requirements.

2.2. Basic Concepts of Behavioural Accounting

These concepts are very closely related to financial accounting concepts. Gynther (1967: 274-290) reports that this discipline suffers from inability to devise, deduce or build a general theory on which to base the necessary lesser theories and events, operations and organizations. One is thus left with no option but theories which cannot be interrelated or fitted to any one framework of accounting in a logical manner.

Consequently, the key accounting concepts that have been closely linked to behavioural accounting are the entity concept and the proprietary concept. These concepts are founded on broadly accepted accounting principles not of a particular country but according to international financial reporting standards. The list of such models includes graphic accounting equation which infuses profit and loss accounts, properties, liabilities, equity, trial balance, and balance sheets.

2.3. Factors Affecting Behavioural Aspect of Accounting

The administrative levels of a company have a big say in shaping the behavioural accounting system. Because this branch of accounting counts on decision makers, their experience and motivation has to be in prime condition so that the corporation realizes its true financial strength.

Other factors for instance lack of proper information on the right practices expected contribute negatively to the subject. It is not uncommon to find accounting practitioners who do not know what the ideal approach is they should adopt to achieve optimum results in the firms.

3. Common Points, Differences and Comparison of Behavioural Finance and Behavioural Accounting

Noteworthy is the observation that there is no economy theory which can function well without incorporating human behaviour as Breitzkreuz (2008) correctly opines. Conventionally, economic models used the concept of rational acting market participant (*homo economicus*), but behavioural science, psychology and other helpful disciplines are now all being embraced in economics.

It is paramount to know that both behavioural finance and accounting use social, cognitive and emotional factors in comprehending the economic decisions of both individuals and companies executing economic functions. Included in this are borrowers and investors as well as the subsequent effect on market prices, profits and resource allocation.

As such, these areas are concerned with the limits of rationality of economic agents. Models of behavioural finance and accounting assimilate insights from psychology with neo classical economic theory. Nevertheless, predictors are concerned with public choice in addition to effects of market decisions. It is for this reason that profitable decisions with associated biases towards promoting self-interest have been made.

It is also evident that both disciplines are simulators of microeconomics and thus their link to psychology. Similar to this is the case of the classical period during which Adam Smith through his theory of moral sentiments endeavored to explain individual behaviour while Jeremy Bentham wrote comprehensively on bedrocks of utility. This was however repackaged during neo- classical economics and made a discipline of natural science deducing economic behaviour.

3.1 Common Points

Numerous concepts as well as theories have been applied within behavioural finance and behavioural accounting as seen in the works by Libby and Fishburn (1977), Birnberg and Shields (1989), Davis (1995), Ashton and Ashon (1999), Ciancanelli, Coulson and Thomson (2001), and Libby, Bloomfield and Nelson (2001) among others (cited in Ricciardi, 2004).

The shared research interests include the topics of heuristics, prospect theory, mental accounting, and risk-taking behaviour and more recently, perceived risk.

Thaler (1980: 39-60), records that one main application of these disciplines, the behavioural life cycle hypothesis states that people mentally frame assets as belonging to either current income, current wealth or future income. This has implications for their behaviour as the accounts are largely non fungible and marginal propensity to consume out of every account.

Framing is another common point shared between behavioural finance and accounting. Framing issues occur when indistinguishable or equivalent depictions of outcomes or items result in different final decisions or inclinations (Ricciardi, 2004).

Also to be included among common points also are the different fallacies associated with behavioural accounting and finance. Diverse fallacies constitute this branch of economics.

Formal fallacies described as fallacious arguments due to an error in their technical structure are one of such fallacies. Under this category of fallacies are appeals to law, appeals to probability, arguments from fallacy, base rate fallacy, conjunction fallacy, correlative based fallacies, fallacy of necessity and false dilemma.

Others are propositional fallacies, quantificational fallacies, formal syllogical fallacies, informal fallacies and faulty generalizations.

3.2 Differences

In as much as these two disciplines have common points, they also have a number of differences which are hereby highlighted. The first and most striking difference is the manner in which concepts and models vary respectively. As a direct consequence of differences in the

technicalities associated with the carrying out of behavioural finance and behavioural accounting practices, the crucial models as well as the vital models inevitably vary accordingly.

Based on experimental research carried out, there are indications that behavioural accounting leans towards the most use of mathematical or statistical methods when compared to behavioural finance. This is true to expectations because accounting duties often deal with tables and figures.

In addition, in behavioural accounting only the attitudes of those concerned with accounting field are covered whereas in the case of finance behaviour, one goes deeper to find the influencing attitudes in markets, corporates as well as amongst individuals.

Furthermore, behavioural finance lays emphasis on the effects the biases of an investor have on the behaviour of financial markets. In the scenario involving behavioural accounting, one narrows down their focus to the results of managerial biases on accounting and reporting issues (Marnet, 2008).

In a nutshell, the differences outlined above are just but divergent ways of providing effective information to help in the process of making decisions that is associated with investment and accounting matters. In the end everything is geared towards the achievement of a collective goal of economics in totality.

3.3 Comparison

Upon a critical evaluation of the similarities and differences between behavioural finance and behavioural accounting, it is possible to surmise that the two disciplines highlighted in this paper are more similar than different. In order to identify overlapping contents of behavioural research in finance and accounting while distinguishing the areas of diversity, selected studies from Behavioural Finance Research (BFR) and Behavioural Accounting Research (BAR) need to be comparatively analyzed (Breitkreuz, 2008). For the sake of illustration, the prospect theory can be seen to apply to both disciplines because it is an example of the generalized expected utility theory. Importantly though, it is motivated by concerns over the accuracy of expected utility theory.

The other similarity is seen in inter-temporal choice being common in behavioural finance and accounting. Inter-temporal choices involve hyperbolic discounting as a tendency to discount results in near future than for outcomes in the far future. This motif can be well elucidated using models of sub additive discounting that are able to tell apart the delay in addition to the interval of discounting.

Additionally, the neo classical assumption of perfect selfishness as considered in inequity aversion and reciprocal altruism also tends to be attached to both case scenarios.

The methodology an individual would use to arrive at conclusions is similar for the cases involving behaviour accounting and finance. Using functional magnetic resonance imaging, the researchers are able to determine which area of the brain area is active during the making of economic decisions. Such experiments simulating markets such as stock trading and auctions can be used to isolate the effect of a particular bias upon behaviour.

Furthermore, the area of heuristics is another area of similarity. This is where people often make decisions based on approximate rules of thumb instead of strict logic. Herd behaviour, overconfidence, as well as overreaction and underreaction are all forms of heuristic processes (Johnsson, Lindblom, Platan, 2002).

Other similarities include framing, and market inefficiencies (which encompasses mispricing, non-rational decision making and return anomalies). The models used in behavioural economics characteristically seek to address a particular market anomaly and adjust standard neo classical models by defining decision makers as using heuristics and prey of framing effects.

In general, behavioural economics continues to reside within the neo classical framework although the customary assumption of rational behaviour is often challenged. While the exploration of human behaviour in finance theory has a long tradition, research in the area of psychological effects in accounting started not earlier than the mid of last century (Breitkreuz, 2008).

Conclusion

In conclusion, the chief goal of modern financial reporting is to supply useful information that can be used by actual and potential investors within the process of their decision-making framework. As information processing of agents on the market for equity is part of finance theory, this is the point where behavioural accounting and behavioural finance converge (Breitkreuz, 2008).

Of significant importance is the fact that the main aspect of the study is psychology or attitudes during decision making which are often emotional. Consequently, this has led to many misconceptions and errors during investment ending up in many economic problems.

Most critics of the behavioural theory have emphasized the rationality of economic agents and argue that experimentally observed behaviour is limited in its application to market situations, since learning opportunities and competition ensure at least a close approximation of rational behaviour.

An action point would therefore be the proposal that behavioural economics be therefore used to eradicate fallacies and assumptions as well as efforts be made to rectify the mistakes made by investors as pertains to their reaction to news of changes in stocks. This will work towards increasing the level of returns per investment.

Another important point to note is that investment information is very significant and therefore behavioural outlooks should be transformed. For example, the occurrence of an event (positive or negative) does not necessarily mean that a subsequent event will either be systematic or opposite. The situations should be seen as mutually exclusive and addresses with that in mind.

The information generated is much more useful to external stakeholders who might want to know what the exact financial position of a firm is. This may profit the government in helping it to determine taxes, investors who may desire to unify or procure, or may even be used by auditors.

Just as Thaler (1999) predicted, behavioural finance is becoming less and less controversial in comparison to yester years when it was under lots of attack on its credibility. With the great paradigm shift that behavioural finance and accounting have come with, most researchers have been slow to embrace the changes opting to stick to the traditional economic theories. In comparison, there exist three different categories of behaviourists. The first category are the most controversial who endeavour to demonstrate that behavioural modifications have the capacity to offer helpful insights and incremental predictive power in even the most competitive and disciplinary institutions (Bloomfield, 2010). The second lot labours to show that some organisations are less effective compared to others in matters of correcting individual deviances from the homo economicus supposition. Lastly is the category of behaviourists who pick out fiscal settings in which behavioural forces are widely viewed to be only weakly disciplined for instance as decisions by individual managers in poorly operated labour markets. These researchers stir the least controversy with minimal engagements with the traditionalists.

It is thus the task of behavioural researchers to augment their efforts to exhibit that the influence of behavioural factors is arbitrated by the ability of institutions (such as competitive markets) to scrub aggregate results of human idiosyncrasies. With such work, a common ground will be forged between traditionalists and behaviouralists, while at the same time identifying contexts where behavioural research is expected to have the most predictive power.

This is because the true significance of interdisciplinary research is providing scholars in the field a fuller understanding and improved body of knowledge concerning the past, present, and future direction (Ricciardi, 2004).

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