



A Bimonthly Newsletter from The Applied Behavioral Finance Group (ABFG), an Associated Group of the CFA Society of Los Angeles (CFALA).

---

#### ABFG Board of Directors

- Mark Harbour, CFA, CFP, CIMA, President of Board
- Jim Altenbach, CFA
- Larry Brody
- Cynthia Harrington, CFA, CFE
- Holmes Osborne, CFA
- Dan Pomerantz, CFA
- Adrienne Regrutto
- Donald Steinman
- John Weisickle, CFA
- Alice Wong, CFA, CPA

---

#### Mission

To be an effective vehicle for communicating with interested parties regarding information and events related to the field of behavioral finance and its practical applications

---

#### Links

[www.abfgla.com](http://www.abfgla.com)

[www.cfala.org](http://www.cfala.org)

## The Applied Behavioral Finance Digest January 2009

### Contents

- Upcoming events
- Summaries of behavioral finance related articles and books
- Editor's Corner
- The Bulletin Board

### Upcoming Events

- No behavioral finance presentations have been scheduled during January or February 2009 in Los Angeles.
- The CFALA annual forecasting dinner has been scheduled for February 5, 2009. Click the link in the left margin for more information.

### Book and Article Summaries

- Book. *"Bullish on Uncertainty: How Organizational Cultures Transform Participants"*. Alexandra Michel. Cambridge University Press, 2008.

Banks that create a questioning, collaborative culture can better avoid market miscalculations.

Smart people who are overwhelmed by uncertainty make even smarter bankers, according to new research by A. Alexandra Michel of the University of Southern California, Marshall School of Business.

Michel's new book explores the case of two major U.S. investment banks - with two differing philosophies on how to structure business processes and organizational strategies.

The counterintuitive findings: the bank that amplified bankers' uncertainty produced better overall results than the bank that reduced bankers' uncertainty. The book's conclusions have implications for every knowledge-based industry.

"In our society we tend to believe that knowledge workers can better cope with complexity when we decrease their uncertainty and give them the tools they need to become experts," says Michel. "This research, in contrast, shows that people are often better at complex jobs when they know less. This gives them the incentive to question assumptions and collaborate with others."

Alexandra Michel, a former Wall Street investment banker, is assistant professor of management and organization at USC Marshall School of Business.

- Article. "Research Note: How the Financial Styles of Managers Impact Financial and Valuation Metrics". Dr. E. Ted Prince. Perth Leadership Institute, Gainesville Florida. *Review of Accounting and Finance*. 2008 Volume 7, Issue 2, pages 193-205. Emerald Group Publishing Limited.

Purpose – The purpose of this paper is to reveal a new contribution to behavioural finance that focuses on individuals rather than groups. Design/methodology/approach – Research is based on field studies with executives utilizing an assessment instrument to identify and measure their financial traits. The approach to the topic is to present the underlying model of financial traits and show how they add another dimension to behavioral finance approaches.

Findings – The model identifies three financial styles, each of which comprises three financial signatures. Each of the financial signatures leads to characteristic financial decisions with specific valuation outcomes.

Research limitations/implications – The research is in its early stages. It requires larger sample sizes and needs to be conducted across industries and different cultures. Its implications are that can be predicted the financial performance and valuation of companies by knowing the financial styles of their leaders and managers, and also their financial cultures.

Practical implications – Practical implications are that this work can be used as a new method for valuing companies, for stock analysis and for portfolio analysis and valuation. It can also be used as a basis for M&A, to assess the financial alignment of companies conducting M&A and the likely chances of success.

Originality/value – The paper shows a totally new way to assess the valuation outcomes of individuals, teams and companies based purely on their behavioral financial traits.

Article URL: <http://www.emeraldinsight.com/10.1108/14757700810874155>

- Book. "The Hidden Persuaders". Vance Packard. Updated edition, 1984. Pocket publishers.

Review by David Futrelle.

Vance Packard, best-selling sociologist and critic of America's consumer culture, never got much respect during his lifetime. Oh, sure, his critics might concede, people read his books, lots of people, and several of his book titles ("The Hidden Persuaders," "The Status Seekers") found their way into everyday speech. But so what? A lot of people read the National Enquirer.

Advertising executives denounced him as a "morality huckster" and conspiracy theorist. Conventional academics looked down on him as a pop sociologist. And more radical critics of the consumer culture chastised him as a mere bourgeois apologist, fixated on corporate "abuses" and unwilling to see that corporate society "depends on abuse" — as Stewart Ewen put it in his luridly titled anti-advertising screed "Captains of Consciousness."

After Packard's death last week, at age 82, even the obituaries seemed a little grudging. "Mr. Packard was a highly successful popularizer of serious ideas raised by America's postwar prosperity and the explosion of consumerism," The New York Times sniffed. "He was skilled as well in coining titles for his books that endured in the national vocabulary."

Even worse, the obits tended to misrepresent his work: both the Times and the Associated Press described "The Hidden Persuaders" as an analysis of "subliminal" advertising — a sort of precursor to the notoriously silly Subliminal Seduction books that ferreted out paeans to sex in airbrushed ice cubes and full-scale orgies in plates of clams. In fact, Packard devoted minimal attention to the subject — the word "subliminal" doesn't even appear in the book — and treated reports of "subthreshold effects" with some skepticism.

Still, Packard had gotten some more respectful treatment in the last years of his life. He was the subject of a serious 1994 biography by Daniel Horowitz. And in his New Republic review of Horowitz's book, historian Jackson Lears argued that Packard "deserves a place alongside more formidably intellectual figures in any history of twentieth-century social thought." Though he "lacked the scholarly range of Edmund Wilson and the literary grace of Lionel Trilling," and though his books were "stylelessly earnest and frequently superficial," he managed to "articulate widespread popular anxieties amid the alleged complacency of the 1950s." And, what's more, did so in a way that enabled him to reach the middlebrow audience other intellectuals disdained.

As much as I hate to admit it, Lears is probably right. When I first read — or, rather, skimmed — Packard's "Hidden Persuaders" some years back, I looked upon it as little more than sensationalized pop pap, a collection of horror stories and conspiracy theories reflecting all the ridiculous assumptions of its sociology-obsessed age. (It was published in 1957.) But, looking at it today, I have to concede there's a lot more there."

- Video Interview. Nassim Taleb on Charlie Rose. Taleb discusses his book "*The Black Swan*" among other topics.

[www.charlierose.com/view/interview/9713](http://www.charlierose.com/view/interview/9713)

### **Editor's Corner**

We're a clearinghouse for behavioral finance applications, including news bits, reviews, opinions, and academic studies in the field. Share items of interest with the group by sending to John Weisickle, Editor of the Applied Behavioral Finance Digest ([info@abfgla.com](mailto:info@abfgla.com)).

Please visit our website at [www.abfgla.com](http://www.abfgla.com). All interested parties are invited to view and make contributions.

### **The Bulletin Board**

Share relevant promotions, awards, achievements or other items or interest here.

- End -