This special issue of Bankers, Markets & Investors, devoted to Behavioral Finance, is the result of a selection process that gave us the opportunity to read many interesting papers related to this burgeoning field. We thank all the authors who submitted their research to be part of this issue. We finally selected three papers that constitute a diversified portfolio in terms of topics, methods, and results.

The first paper of this special issue is written by Jean-François Gajewski and Sima Ohadi. The title is “How do anticipation and experience of regret affect financial decision-making? A lab experiment”. Conventional finance theory assumes investors’ choices are guided by a maximization process leading to an optimal trade-off between risk and return. Regret, defined as a negative emotion you experience when you realize that an alternative decision could have produced a better outcome, does not enter the decision process of the homo economicus. In the real world, populated by what Meir Statman calls “normal people”, regret aversion can be a strong driver of decisions, in particular financial decisions. Regret is a complex concept because it can be anticipated, and/or experienced as well. Therefore, studying the influence of regret aversion on financial decisions requires a careful analysis. In this perspective, performing lab experiments is one the most efficient ways to control for potential confounding effects. This is what the authors do in their paper. More precisely, their lab experiment including 102 participants, shows the effect of regret on the willingness of investors to take risk and/or to invest in skewed assets. The authors start by eliciting a regret-aversion coefficient and assess its effect on subjects’ investment decisions in risky and/or skewed lotteries. They also distinguish decision processes with and without feedback. One of the most interesting results of the paper, among others, is that investors with a stronger regret aversion are more likely to invest in positively skewed lotteries. Moreover, this experimental paper goes beyond what is known in the literature, because it takes into account the interaction between anticipated and experienced regret. In fact, the anticipation of regret appears when people learn about their foregone choices and become aware of what they missed, a phenomenon put to light in recent neuroscience studies.

The second paper, written by Sana Charbti, Fabrice Hervé, and Evelyne Pincelot, is “Dividend Policy and Managerial Overconfidence: French Evidence”. As the title clearly indicates, the paper studies whether overconfidence of managers plays a role in the definition of a dividend policy. Many deviations from the homo economicus model have been highlighted in studies of managers’ decisions, for example the influence of moods and emotions, the role of limited information, and the limitations of cognitive ability. Overconfidence of managers also appears as a personal characteristic, generating deviations in decision processes. It has already been studied in a number of papers, in particular...
when it turns to investment decisions, or decisions related to mergers and acquisitions. Nevertheless, only a few papers address the important issue of the link between dividend policy and managerial overconfidence. Moreover, none of them studies the French market which, by the way, deserves a specific analysis due to the concentration of ownership and the strong family orientation of the ownership.

Two opposite views pave the way of such an analysis. On one side, overconfident managers who think they should invest heavily, perceive external funds as more costly than internal financing. They therefore are inclined to pay out low dividends. On the other side, when overconfident CEOs overestimate future cash flows, they are prone to pay out large dividends. The authors of the paper provide a deep analysis of a large sample of 120 French firms, over a 16-year period from 2000 to 2015. This period is especially interesting because it includes the 2008 financial crisis and the Euro debt crisis. The authors use fixed-effect estimations and GMM dynamic models to show that overconfidence of CEOs is crucial in explaining the dividend policy of French firms. According to their empirical study, managerial overconfidence tends to increase the firms’ dividend payout.

The third contribution of this issue, “What do we learn about CEOs’ behaviour through neurofinance?” is written by Guillaume Baechler and Laurent Germain. Following two papers using empirical and experimental methodologies, this third one provides an extensive review of the research devoted to CEO’s and entrepreneurs’ behavior, in the specific perspective of Neuroscience. Even in 2021, entrepreneurship continues to fascinate researchers because it still contains a part of mystery. In particular, the mental process that leads an individual to become an entrepreneur remains difficult to characterize. The first half of the paper explains what neurofinance has to say on this topic. Twin studies, though difficult to implement, are especially well fitted to explain the genetic foundations of heritability of entrepreneurship. Another approach consists in examining some specific characteristics of genes that correlate with the tendency to become an entrepreneur. The authors also show that researchers have a hard time to distinguish between genetic foundations and environmental reasons. A basic intuition tells us that parents who are entrepreneurs can influence the probability that their children become entrepreneurs, even without any genetical consideration.

The second half of the paper relates to another important question: what are the decision processes of CEOs and entrepreneurs? The authors survey the literature related to the biological and neurological foundations of risk-taking. They describe the role of the endocrine system in the decision-making process of entrepreneurs, the influence of circulating testosterone on risk-taking, and the role of prenatal exposition to testosterone in decision processes.

References

- Statman, Meir (2017), Finance for Normal People, Oxford University Press.