

Special issue of the *Review of Behavioral Finance* guest editors' introduction

Traditional neoclassical finance assumes that individuals make decisions in an attempt to maximise their personal utility function given a number of constraints. One of the unrealistic assumptions of neoclassical models is that such individuals are fully rational as dictated by the standard Bayesian probabilistic framework. However, in reality, investors hardly ever make decisions under conditions of perfect information and information is not always processed without cognitive or emotional biases.

Behavioural finance challenges the idea that investors are fully rational. Cognitive errors such as miscalculations, misunderstanding of data, memory errors and effects such as framing, the endowment effect, confirmation bias, gambler's fallacy and status quo bias are borrowed from psychological studies to explain human decision making for financial matters.

However, research has shown that apart from the aspect of cognition, an individual's decision-making process is also greatly affected by his/her emotions and feelings. Emotional finance is a new paradigm in the understanding of investment activity by incorporating emotions in financial decision making. It is different from traditional finance theory which assumes investor rationality. It also differs from behavioural finance which may assume that individuals may not be fully rational but they can learn from experience and revert to rationality. Emotional finance argues that human beings are inherently irrational and to a great extent emotions drive their actions and decisions. Emotions such as anger, fear, shame, regret, joy, greed are closely linked with financial investments. Individuals can be either consciously aware and, more importantly, emotions which are unconscious have a much more powerful effect. To that respect, recent work in the field of neuroscience claims that the vast majority of our mental activity is unconscious; while, the presence of powerful emotions during the financial decision-making affects not only investors' cognitive functions but also their physiology, e.g. skin conductance and cardiovascular effect due to elevated stress, impact on the anterior insular cortex of the human brain due to aversive visual stimuli and anxiety anticipation.

In recent years, there has been growing empirical evidence of the impact of emotions on financial markets. Capturing emotions empirically is a challenging task with some of the most recent studies utilising a range of proxies such as expressions on social networks, hospital admissions, weather or sports results, etc. (Nofer and Hinz, 2015; Engelberg and Parsons, 2016; Strauß *et al.*, 2016; Siganos *et al.*, 2017). The special issue on emotional finance is another attempt to motivate and gather studies that show the impact of emotions in financial markets.

The first paper, by Wuthisatian *et al.*, addresses the issue of motives on social interactions, and how these can affect risk attitudes and financial decision making. This is achieved by modifying Kahneman and Tversky's (1979) value function in a way that treats individual decision maker's (DM) feelings of envy with regard to others' successes as a disutility factor and encouraging him/her to minimise the difference between their own

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gains and those of others. As the authors demonstrate, using both experimental and survey data, the feeling of envy with regards to others' successes not only changes DMs' reference point but also leads to an increase in their willingness to accept risk. As the paper suggests, this modified value function can help explain speculative transmission within an economy and the build-up of financial bubbles.

The issue of individuals' willingness to change financial behaviour is examined in the next paper by Fiksenbaum *et al.* In their work, the authors try to predict individuals' intended behaviour to lessen financial distress by developing and testing a predictive model of intended behaviour that uses a large number of economic, emotional and motivational variables. Their results confirm the positive relationship between financial threat appraisal and intention to act, including job search behaviour and willingness to change.

In the third paper of the issue, Shen *et al.* investigate the link between media-based emotion indices and commodities. The authors expand the single dimension of investor sentiment index (extensively used in prior literature) into multiple dimensions of emotion indices using a large collection of media sources. According to their findings, commodity-specific emotional variables appear to be unreliable in predicting market composite index returns, but can be used to predict short-term commodity returns for individual commodities. As the authors suggest, this finding confirms the applicability of the valence-arousal approach of Feldman (1995) in a collective market-level emotion research setting.

The link between hedonic value and crowdfunding project performance is examined in the next paper of the issue by Liang Zhao and Tsvi Vinig. This paper contributes to the growing empirical literature on the drivers of crowdfunding success by investigating the impact of applying a form of lottery in a reward-based crowdfunding setting and its effect on funding success using data from the largest reward-based crowdfunding platform in China. According to the study's results, this hedonic feature of crowdfunding projects has a positive impact on the success of the individual funding campaign, suggesting that hedonic-oriented promotion strategies can offer a new business model for current and future crowdfunding platforms.

Finally, the last paper of this special issue by Garling *et al.* investigates the impact of an affect account on the well-documented disposition effect in stock markets by modelling the balance between the emotions of hope-fear and elation-anticipation. Their conceptual framework shows that sell decisions are deferred until a price is reached at which the negative elation-disappointment balance is equally strong as the negative hope-fear balance; at which point, selling is perceived as an acceptable loss by the individual investor. Furthermore, their analysis suggests that the affect-driven disposition effect can intensify or attenuate price trends depending on the demand-supply balance for stocks.

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