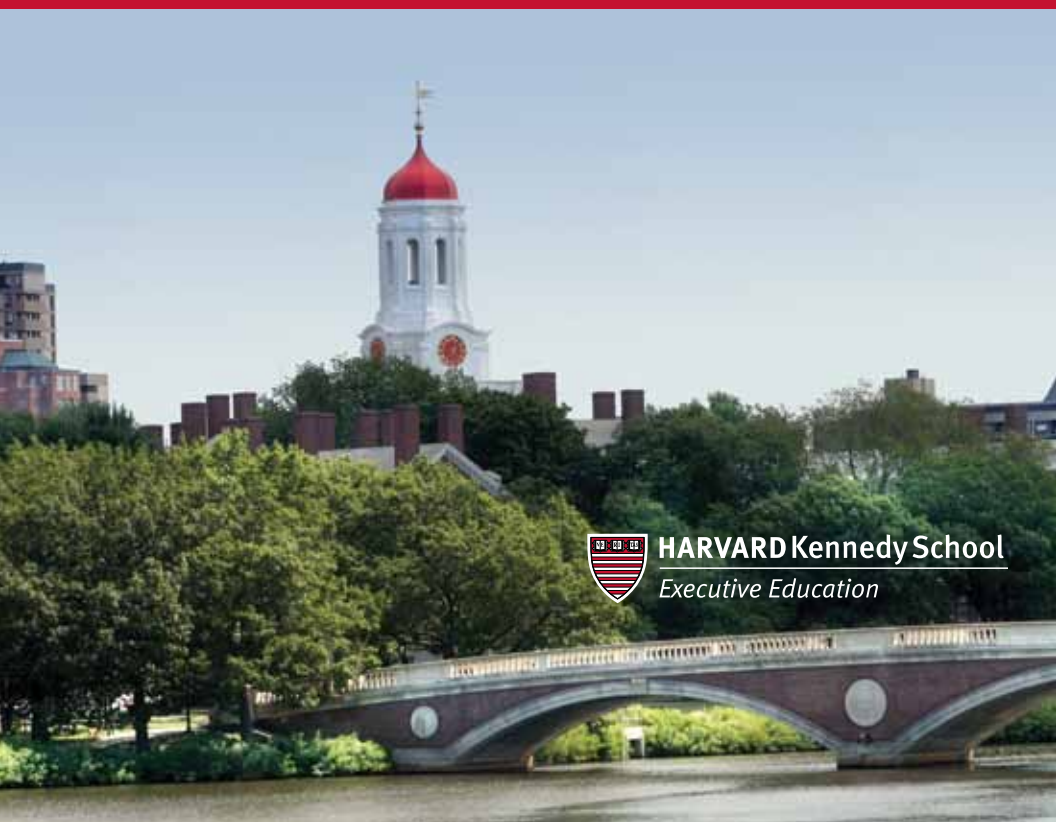


HARVARD

INVESTMENT DECISIONS AND BEHAVIORAL FINANCE: IDENTIFYING AND CAPITALIZING ON IRRATIONAL INVESTMENT PRACTICES

A cutting-edge program on behavioral finance, the revolutionary approach to investment decision making. The program is taught by faculty who are major contributors to the field.



HARVARD Kennedy School
Executive Education



THE PROGRAM

Led by a faculty of renowned experts and leading practitioners, **Investment Decisions and Behavioral Finance** presents a revolutionary science for investment decision making—behavioral finance. Participants learn the central principles and latest findings of the psychology of decision making under conditions of risk and uncertainty, with attention to practical applications for those responsible for managing assets and constructing portfolios for investment clients. These principles will enable them to better understand what investors actually do in a given set of circumstances—such as the dramatic uncertainties associated with debt crises in nations around the world—versus what rational analysis prescribes. Equally important, the program explains how markets respond given the natural proclivities of investors. The recent meltdown in financial markets, including the collapse or near collapse of major financial institutions can best be understood using a behavioral perspective. The program provides fundamentals so that participants can develop their own strategies for asset allocation, diversification, and client development and communication.

Some of the topics and questions covered in prior sessions include:

- » Understanding the new applied science of effective decision making.
- » How and why do financial bubbles develop, and how can they be recognized?
- » What erroneous assumptions underlie many standard financial practices? How to recognize and correct for the common earnings manipulation strategies of corporate managers.
- » Investigating the ways other decision makers and companies have implemented behavioral finance approaches—and how to develop an implementation strategy best suited to your interests and capabilities.
- » How does the function of the brain affect decisions, including financial decisions?
- » How to avoid making decisions that are both bad and have large down-side potential.
- » Managing the behavioral decision propensities of your clients.
- » Exploring behavioral explanations for past financial crises and seeing signs for possible future challenges.

PROGRAM DATES:
October 13–14, 2011

TUITION: \$4,000

FACULTY CHAIR: Richard Zeckhauser,
Frank P. Ramsey Professor of Political
Economy

“Any person seeking to understand human behavior must attend this program. If Executive Education is food for the head, this program is a feast.”

HANS F. OLSEN, CHIEF INVESTMENT OFFICER, BINGHAM LEGG ADVISORS

THE CURRICULUM

Program sessions change from year to year in order for the class to stay up-to-date with the most important research and issues. The 2011 session will address policy procrastination and debt crises. Recent session topics:

On Behavioral Economics, Financial Decision Traps, and Systematic Irrationalities

An introduction to the science of behavioral economics and its application to financial management. It explores how behavioral approaches to the market differ from so-called conventional or “rational” approaches.

The Psychology of Individual Investment Decision Making

The conventional wisdom about investment risk is that it is a function of the age, wealth, income requirements, and time horizons of the investor. Therefore, investment managers need only to determine the appropriate level of risk for the client, matching the portfolio to it. In fact, extensive behavioral research shows that risk attitudes derive substantially from overestimating (bold forecasting) or underestimating (timid decisions). We will examine the implications of this research for financial managers.

Managing and Investing Rationally in a Non-rational World

Research suggests that standard finance is based on incorrect assumptions and fails to capture

the basic facts about financial markets. We will explore how investment practices should differ once we recognize the lack of rationality of financial markets and their inhabitants.

Investing in the Unknown and the Unknowable

The major profit opportunities in the modern world come from investing where professional analysts fear to tread, hence there is modest competition from the investment community. Often this entails “sidecar” investments, where your special relationships with knowledgeable others enable you to be pulled along by a powerful “motorcycle.” Many such highly profitable investments will be in illiquid assets.

Confessions of a Value Manager

This presentation examines global investment strategy in relation to investor psychology. It also includes practical lessons for current markets.

Behavioral Explanations for the Financial Crisis

Efficient market theory could not explain this unforeseen severe collapse in security prices despite little new information about the real economy. Behavioral finance provides critical insights. Two arresting phenomena are addressed: the cascade of losses from the housing sector to the entire financial system, and disastrous decision making by leading financial institutions.

Richard Zeckhauser, Faculty Chair



PROGRAM FACULTY

Richard Zeckhauser, Faculty Chair

Frank P. Ramsey Professor of Political Economy, Harvard Kennedy School

Professor Zeckhauser is a leading figure in risk analysis, decision theory, and microeconomics. He pioneered the studies of status quo bias, betrayal aversion, and threshold behavior, which are central subjects for behavioral finance. He has put his understanding to work as a board member of small high-tech companies and a principal of investment firms. He is an elected fellow of the Institute of Medicine (National Academy of Sciences), the American Academy of Arts and Sciences, and the Econometric Society, and the author or co-author of 12 books and over 250 articles.

Richard Bernstein

Chief Executive Officer, Richard Bernstein Advisors LLC.

Richard Bernstein has nearly 30 years' experience on Wall Street, including most recently as the Chief Investment Strategist at Merrill Lynch & Co. He was voted to *Institutional Investor* magazine's annual "All-America Research Team" eighteen times, including ten as the top-ranked analyst in his category. His book *Style Investing: Unique Insight into Equity Management* is widely viewed as the seminal book on style-oriented investment strategies. He is a trustee of, and sits on, the investment committees of the Alfred P. Sloan Foundation and Hamilton

College, and serves on the Executive Committee of the NYU/Stern Graduate School of Business, where he is an Adjunct Professor of Finance.

Iris Bohnet

Academic Dean, Professor of Public Policy, and Director of Women and Public Policy Program, Harvard Kennedy School

Iris Bohnet is a behavioral economist whose current research focuses on trust, its determinants, and its relevance for negotiation and for individual and collective decision making. She has run experimental studies on five continents assessing how individuals make decisions.

Chris Chabris

Assistant Professor of Psychology, Union College and Adjunct Assistant Professor of Neurology, Albany Medical College

Christopher Chabris is co-author of *The Invisible Gorilla: And Other Ways Our Intuitions Deceive Us*, a *New York Times* bestseller and Editor's Choice. The experiment that inspired this book earned him the Ig Nobel Prize in psychology. He writes from time to time for the *Wall Street Journal* and other national publications. Until 2007 he was a Lecturer and Research Associate in the psychology department at Harvard. His research interests include collective intelligence, individual differences in cognition and decision making, and cognitive illusions, especially illusions related to confidence.



JOHN F. KENNEDY
SCHOOL OF GOVERNMENT

David Laibson

Professor of Economics, Harvard University

David Laibson is a member of the Russell Sage Behavioral Economics Roundtable, the MacArthur Foundation Preferences Network, and the National Bureau of Economic Research. His research focuses on psychology and economics, and he currently is working in the fields of macroeconomics, decision and cognitive sciences, behavioral finance, and experimental economics. His work on the time inconsistency of individuals' decisions has become a classic.

Andrew W. Lo

Harris & Harris Group Professor of Finance, MIT Sloan School of Management

Andrew Lo is director of the MIT Laboratory for Financial Engineering, a research associate of the National Bureau of Economic Research, a member FINRA's Economic Advisory Board, and founder and Chief Investment Strategist of AlphaSimplex Group, LLC. He has published numerous articles in finance and economics journals, and has written several books including *The Econometrics of Financial Markets*, *A Non-Random Walk Down Wall Street*, and *Hedge Funds: An Analytic Perspective*. He is the recipient of numerous awards, including an Alfred P. Sloan Foundation Fellowship, a Guggenheim Fellowship, the Paul A. Samuelson Awards, and the James L. Vertin Award.

Michael Mauboussin

Chief Investment Strategist, Legg Mason Capital Management and Adjunct Professor, Columbia Business School

Michael Mauboussin is the author of *Think Twice: Harnessing the Power of Counterintuition* and *More Than You Know: Finding Financial Wisdom in Unconventional Places—Updated and Expanded*. *More Than You Know* was named one of “The 100 Best Business Books of All Time” by 800-CEO-READ, one of the best business books by *BusinessWeek*, and best economics book by *Strategy+Business*. Mauboussin has been an adjunct professor of finance at Columbia Business School since 1993 and is on the faculty of the Heilbrunn Center for Graham and Dodd Investing. In 2009, Michael received the Dean's Award for Teaching Excellence.

Gary Orren

Professor of Public Policy and Management, Harvard Kennedy School

Gary Orren teaches and writes on public opinion, politics, and persuasion. He has worked in the United States and abroad as a pollster and strategist for candidates, interest groups, government agencies, corporations, and news organizations, including the *New York Times* and *Washington Post*. He helped draft the rules for the presidential nomination process and assists *ABC News* in its election night forecasting. His books include *Equality in America: The View from the*



PROGRAM FACULTY [Continued]

Top, Media and Momentum: The New Hampshire Primary and Nomination Politics, The Electronic Commonwealth: The Impact of New Media Technologies on Democratic Politics, and Media Polls in American Politics.

Mark W. Riepe

Senior Vice President, Schwab Center for Financial Research and President, Charles Schwab Investment Advisory

Mark Riepe, CFA, is a regular columnist for the *Journal of Financial Planning* and his numerous studies that have appeared in publications such as the *Financial Analysts Journal* and *The Journal of Portfolio Management*. Prior to joining Schwab, he served as vice president with Ibbotson Associates, a Chicago-based financial consulting firm. He earned his bachelor's degree in economics from the University of Chicago and his master's in finance from the school's Graduate School of Business.

Arnold S. Wood

Founding Partner, President, and Chief Executive Officer of Martingale Asset Management, L.P.

Arnold S. Wood chairs the Management Committee of Martingale Asset Management, L.P., in addition to being its Founding Partner, President, and Chief Executive Officer. Prior to Martingale, he was a Trustee and Senior Vice President of Batterymarch Financial

Management, where he was a global investment strategist and portfolio manager. Wood had served many years as Governor of the CFA Institute, was Chairman of Financial Analysts Federation, and is currently a Trustee of the CFAI Research Foundation.

Dinner Speaker:

Clifford Asness

Managing & Founding Principal, AQR Capital Management

Clifford Asness has been awarded the James R. Vertin Award by the CFA, which is periodically given to individuals who have produced a body of research notable for its relevance and enduring value to investment professionals. Prior to co-founding AQR Capital Management, Cliff was at Goldman, Sachs & Co. where he was a Managing Director and Director of Quantitative Research for the Asset Management Division. Cliff has authored articles on many financial topics including multiple publications in *The Journal of Portfolio Management* and the *Financial Analysts Journal*. He is on the editorial board of *The Journal of Portfolio Management*, the editorial board of the *Financial Analysts Journal*, the governing board of the Courant Institute of Mathematical Finance at NYU, the Board of the International Rescue Committee, and is a trustee of the Manhattan Institute and the Atlas Society.

“Participating in this program is the best investment that I have ever made in understanding market behavior.”

PARTHA SEN, SENIOR VICE PRESIDENT, BANK OF AMERICA

WHO SHOULD ATTEND

Investment Decisions and Behavioral Finance is designed for senior decision makers in the investment community. Ideal participants include investment company presidents, chief investment officers, investment strategists, portfolio and fund managers, pension plan executives, senior analysts and directors of research, senior executives of corporations, and high net worth private investors.

Past participants of the program and practitioners of behavioral finance should consider attending as the speakers change from year to year. The material has been significantly updated over the last three years, incorporating the latest research and applications of behavioral finance.

*In cooperation with CFA Institute (www.cfainstitute.org), Harvard Kennedy School Executive Education is pleased to offer a 10% discount on **Investment Decisions and Behavioral Finance** tuition to CFA members. The program is endorsed by CFA Institute and is approved by its Board of Standards for 15 continuing education credits.*

***Investment Decisions and Behavioral Finance** is accepted by the CFP Board of Standards for 15 credits.*

REGISTRATION REQUIREMENTS

Please visit www.hks.harvard.edu/ee/bf to register. Early registration is encouraged. Registration forms received after the deadline will be considered only if space remains in the class. This program is approved by the CFA Institute and the CFP Board of Standards for continuing education credits.



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www.hks.harvard.edu/ee/bf

**“Leadership and learning are
indispensable to each other.”**

John F. Kennedy

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