

COMMENT

Are financial investors rational or irrational?

Forbidden readings, analysis and economic proposals for Peru

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In chapter X, subchapter 18, of his book, Alarco wonders why stock exchange agents sometimes behave rationally and some others act irrationally. He adds on how stock exchange indices have increased in contradiction to what disturbing has been the Trump phenomenon to financial markets. However, no solid evidence is accompanied.

A first evidence is found in Vissing-Jorgensen research work (2003), which proved that even for rich investors and with high expected returns at the peak of the market, many investors thought the market was overvalued but would not correct quickly, and investors' beliefs depended strongly on their own investment experience. The same author concluded that irrational investor behaviors diminish substantially with wealth. Given the cost needed to rationalize irrationality, many households do not invest in the stock market.

A second evidence is encountered in Mamun, Syeed, and Yasmeen's study (2015) which states that investors behaviour cannot be best understood by only following the efficient market hypothesis (EMH) approach nor by purely studying the psychology of these agents; rather a combination of both approaches may lead to a better understanding of investors behaviour in financial markets.

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