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BEHAVIOURAL FINANCE AND INVESTORS IN TOURISM

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Abstract: *Behavioural finance investigates the psychological and sociological issues that influence the process of decision-making of individuals, groups, and organizations. This paper discusses the general principles of behavioural finance in tourism investors such as financial cognitive dissonance, overconfidence, prospect theory, and regret theory, which are the source of mistakes and errors in business. Those who invest in tourism (tourism companies and hotel facilities) should be aware of the biases associated with the general principles of behavioural finance to be able to resolve these "mistakes and errors" when choosing the investments matching their personality traits.*

• Introduction

According to Ongkrutaraksa (1996) and Muhammad (2009), there is a clearcut theoretical difference between modern finance (which emphasizes the efficient market hypothesis and the modern portfolio theory) and new finance (which "investigates the psychological and sociological issues impacting the decision-making process of individuals, groups, and organizations"). Modern finance (the negative one) can incur substantial costs because of excessive reliance on normative assumptions; can result in absurd rationalization because of the unrealistic characterization of individuals who directly affect the market operations; focuses more on the outcomes of the ideal individual decision-makers and less on the actual decision-making process itself; is normative; limits the progress in theoretical development because it tends to be more immune from falsifiability without the confirmation / disconfirmation from empirical findings and alternative paradigms. New finance (the positive one) lacks the well-structured theoretical guidance from the normative approach.
Behavioural finance, defined as "an area of study that proposes psychology-based theories to explain market outcomes and anomalies", relies on an important interdisciplinary relationship

• Material and method

The material used in this paper consists in literature on behavioural finance and on the biases associated with the general principles of behavioural finance. The research method is bibliographical.

Figure 1. Disciplines involved in behavioural finance

• Results and discussions

Tourism investors invest in tourism companies and hotel facilities. In theory, their investment management focuses on investment objectives, investment products, investment evaluation, investment strategies, portfolio construction, and performance evaluation. In practice, the "investment management process involves the following steps: establishing investment objectives, establishing an investment policy, selecting a portfolio strategy, selecting the specific assets, and evaluating performance".
Investors make typical mistakes (i.e., behavioural biases): if the asset location is too much influenced by these mistakes, investors risk to lose money. Mistakes made by investors in tourism companies and hotel facilities can be explained by behavioural finance)
- Anchoring is "a heuristic that describes the subconscious use of irrelevant information, such as the purchase price of a security, as a fixed reference point (or anchor) for making subsequent decisions about that security" (Investopedia). That is why investors need to realize how the information is presented.
- Attention / Availability / Recency bias is "the tendency for people to overweight new information or events without considering the objective probabilities of those events over the long run" (Investopedia): tourism companies and hotel facilities more frequently advertised in the media are remembered more quickly by tourism investors who avoid considering bad or inaccessible information.

• Conclusions

The conclusions of the literature presented above are:
- There is a clearcut theoretical difference between modern finance (emphasising the efficient market hypothesis and the modern portfolio theory) and new finance (investigating "the psychological and sociological issues impacting the decision-making process of individuals, groups, and organizations");
- Market outcomes and anomalies (mistakes and errors) can be explained based on psychology and sociology, i.e., on behavioural finance;
- Investment management focuses on investment objectives, investment products, investment evaluation, investment strategies, portfolio construction, and performance evaluation;
- Investment management process involves "establishing investment objectives, establishing an investment policy, selecting a portfolio strategy, selecting the specific assets, and evaluating performance";
- Behavioural finance relies on numerous principles, most of which represent biases;
- Tourism investors should be aware of the biases associated with the general principles of behavioural finance to be able to resolve "mistakes and errors" when choosing "the investments that match their personality traits.