Preface

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Biographical notes: Dimitrios Koutmos teaches at the Worcester Polytechnic Institute and Fairfield University. His research interests include asset pricing, behavioural finance, derivatives, financial econometrics and risk management.

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Traditional neoclassical approaches to finance and risk modelling generally assume that market participants are rational and that their decision-making processes can be modelled as a utility maximisation problem. In reality, however, market participants hardly make decisions on the basis of perfect information equally accessible to everyone. In addition, and to further confound empiricists who are striving to develop models that can accurately describe investor behaviours, market participants are likely to construe imperfect information distinctively on the basis of their experiences, expectations and biases. This poses serious challenges in understanding investor behaviours and their decision-making processes and, ultimately, how these impact financial markets. While the rising level of sophistication in financial risk modelling tools reflects this, with the rise of big data, this area will continue to grow rapidly in the future to come.

This special issue consists of seven high quality papers on this subject. These papers cover a range of topics that contribute to the overall theme of this special issue. Their topics also reflect the diverse stakeholders and interests surrounding behavioural finance at large.

The first paper by St. Pierre, Klimkiewicz, Resom, and Kalampalikis presents a machine learning approach to actively trading the stock market. It utilises Google search indices as a proxy for investor attention and, using a long short-term memory network, proposes a framework for allowing investors to time market entry and exit points.

The second paper by Giannouli and Kountzakis highlights the difficulties in developing reliable credit risk assessment models. This paper develops new credit risk models that use a combination of financial and credit behaviour data and are advantageous in that, first, they are parsimonious and utilise a small number of variables, second, exhibit stability across time and, third, allow the distinction between 'good' and 'bad' credit behaviour. The empirical results are estimated using Greek companies.

The third paper by Puente and Wilson shows that minority and black owned banks were significantly less likely to receive funds from the Troubled Asset Relief Program (TARP). For example, as shown in the paper, a non-minority bank with similar bank characteristics was several times more likely to obtain TARP funds than their minority bank counterparts.

The fourth paper by Markopoulos models the determinants of mortgage portfolio arrears in the UK's buy-to-let (BTL) market. The paper shows how borrowers' decisions can be influenced from personal biases and levels of optimism. In addition, the 2008–2009 financial crises also show how lenders can be driven by biases when making lending decisions.

The fifth paper by Diakomihalis and Kapsiohas examines the hotel industry in Greece for the period 2004 through 2014. Based on financial accounting and dividend data, the authors therein show the strength of Greece's hotel industry across time in light of the European debt crisis and the austerity measures that Greece has instituted.

The sixth paper by Sarantidis, Mitropoulos, and Kollias examines the relationship between quantitative easing (QE) programs, government bond yields and bank stock returns for the EU periphery. It reports on the effects of QE by the European Central Bank (ECB) for the time period starting in 2008 until 2017 – a period that covers the 2008–2009 financial crises as well as the recent European debt crisis.

Finally, the seventh paper reports on market inefficiencies that appear in leveraged trading instruments, which have become increasingly popular in recent years. This paper develops a novel framework for identifying entry and exit points for investors, given their risk preferences and overall economic conditions.

In closing, we express our sincere thanks to all the contributors of this special issue. Their hard work and talent has been essential in making this high quality volume.