Foreword

It is a well-known matter of fact that successful investment activities are of very high importance both to individual companies as well as to the economy as a whole. Consequently, it is vital for the responsible decision makers to take the 'right' decisions, the ones which lead to success. Assuming that rational behavior usually favors the achievement of success, then cognitive biases which violate the principles of rationality are a clear threat to it. The existence of such biases which result from unconsciously applying mental heuristics has repeatedly been demonstrated empirically for financial investments. However, the obviously highly relevant questions whether and how such cognitive biases also affect capital investments, and how they can be tamed, have not been answered yet.

The research presented in this book addresses exactly these questions. Based on the current state of knowledge with regard to cognitive biases and investment theory, it analyses theoretically and empirically whether three typical cognitive biases also influence capital investment decisions. The results are unambiguous: the existence of cognitive biases is clearly demonstrated for the anchoring heuristic, framing, and asymmetric dominance, each at a high level of statistical significance – an insight with tremendous importance for the management of investments, which could also benefit from the approaches to deal with heuristics and biases that are subsequently presented by the author.

This scientific contribution is based on a comprehensive and thorough analysis of the relevant literature which forms the foundation for the author's own coherent and conclusive argumentation as well as for the methodologically impeccably conducted series of empirical analyses. Being the first comprehensive research to address cognitive biases in the context of capital investments, this book constitutes a remarkable 'pioneer work' and is expected to initiate further studies in this multifarious and highly relevant area at the intersection of economics and psychology. At the same time, this book is worth reading not only for scientists and academics, but also for practitioners in the field of investments, as it conveys multiple thought-provoking impulses and suggestions for practical applications and thus deserves a broad audience.

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