**A Rhetorical Analysis of Artifacts on Behavioral Finance**

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**Introduction**

Behavioral finance has been viewed as a controversial subject to some within the fields of business and economics. Some believe it is necessary, while others find it to be too risky. The most popular take on the subject, however, has been that it is important to understand and should be more involved in the future. Essentially, behavioral finance is the combination of psychology and an understanding of financial markets (Ritter, 2003). In other words, mixing the way people think and handle emotions with the awareness of how prices can fluctuate among markets. Understanding the psychology behind decision making in markets can help investors take a step back and think about the weight of their options a little longer. This is different from what is typically taught in traditional finance, which focuses more on calculated approaches to decisions and the belief that all available information is used and accounted for in the market. Many experienced professionals are voicing their opinions and showing the statistics of the benefits of integrating the knowledge of psychology with financial decisions to try to stress its importance, especially to the younger people in the field. Being able to understand behavioral finance can help make the best financial decisions by understanding the behavior patterns that can occur, rather than focusing on a calculated approach on a fluctuating market. As more research continues to be done on why behavioral finance is better than traditional and how a standard model can be made, more experts are spreading awareness on what it is. The goal of this paper is to highlight these key factors and provide a complete understanding of the topic to contribute to the discussion of behavioral finance’s impact and necessity. To do so, this paper will analyze the peer-reviewed journal article, “Behavioral finance” by economist Jay Ritter and the video “Behavioral Finance” of a speech given by psychologist Daniel Kahneman, to compare the perspectives of both parts of behavioral finance and provide a conclusion on which is better at demonstrating why behavioral finance is the best way to approach financial decisions.

**Analysis of Artifact 1: “Behavioral Finance” by Jay Ritter**

One of the most common ways for business research to be broadcast to the population is by being published in a business journal, which is the genre of this artifact. The purpose of Ritter’s scientific journal article was to spread information about what behavioral finance is and voice his support of why it should be more present. Jay Ritter is an economist who works in the Department of Finance at the University of Florida as the Joseph B. Cordell Eminent Scholar, so he is clearly a very credible author. He explains that behavioral finance models are not always the best for everyone because of the difference in people’s cognition. He expresses that they may not be the most rational either due to “preferences and mistaken beliefs” (Ritter, 2003, p. 430)). By giving examples of how the market could reflect each idea he discusses about cognitive bias, which include heuristics, overconfidence, mental accounting, framing, representativeness, conservatism, and disposition effect, it is clear that his intended audience is meant to be at least somewhat aware of these ideas or at a level to be able to easily grasp them. Since Ritter is clearly trying to appeal to similar professions, he writes the paper as what seems like a more casual discussion in some parts, versus a strictly formal research paper. Still providing plenty of statistics and referring to other professionals’ papers, Ritter utilizes logos and ethos consistently to address his points. For instance, he states, “The inflation rate is 6%, and the equity risk premium is zero, so the nominal cost of capital is 10% (a real cost of capital of 4%)” (Ritter, 2003, p. 435). He is demonstrating assumptions in the market and using actual numbers to show the financial part of it, he is appealing to the reader’s logic. He also, possibly unintentionally, uses pathos in a way that makes his writing seem like a conversation with the reader rather than a presentation. For example, when he explains misvaluations of markets, Ritter says, “Did they make money? No, they lost money when prices diverged further from their theoretical values during the third quarter of 1998.” (2003, p. 433). Rhetorical questions can be found all through the paper, which Ritter uses to connect to his readers on a more personal level, rather than just telling them the information. Later, he says, “I would now like to talk about some specific applications of behavioral finance.” (2003). This kind of informal transition between topics seems like Ritter is writing down his thoughts, which are still credible because of his background and prestige in the field which may be why readers are reading his work in the first place, which contributes to his use of ethos. Expanding on ethos, Ritter writes, “There are two excellent articles that address this issue: Barberis and Thaler (2003) and Hirshleifer (2001)” (2003). By referencing specific work also written by experts, he is building his own credibility of his ideas.

**Analysis of Artifact 2: “Behavioral Finance” from Daniel Kahneman**

This video is of a speech given by Daniel Kahneman at the Amundi World Investment Forum. Kahneman is a renowned psychologist and Nobel Memorial Prize winner, deeming him a credible speaker for this event. In his speech, Kahneman discusses what behavioral finance is and explores the impact of some of its common components. The Amundi World Investment Forum is one of the most distinguished asset management events in the world and is a place for highly qualified experts to be able to share new findings and ideas and discuss topics of the field with each other. Therefore, Kahneman’s audience at the time was professionals and investors, and since the video was posted on the channel BCC Speakers, a channel that posts other sophisticated speeches and podcasts, the audience is expanded to others online who are interested in behavioral finance or who can understand a high level of information. This makes the genre a speech and his purpose is to share what behavioral finance is and why it matters to business professionals who can take action with the information. Additionally, since the speech was given at this forum, the tone is very formal. Kahneman begins by immediately acknowledging his perspective as a psychologist rather than an economist looking at this topic, which is the most common perspective seen in published work. From his point of view, the half of behavioral finance that is psychological can be inspected in a different way that most economists will see. He also utilizes ethos through this by emphasizing his own credibility as a speaker. Later, as he explains that people who invest on their own make very expensive mistakes, he says “possibly still the best research was done a long time ago by Tario Dean who earlier than that was a student of mine” (Kahneman, 2018), which is also a way to use ethos as he is crediting not only someone who is qualified to do the best research, but someone who he taught, showing off his own credibility again. Kahneman also uses logos to appeal to his audience. To explain how people react differently to loss, Kahneman says “it’s a strange thing to call it a discovery because it's so obvious but it was a discovery in its time… the pain of loss seems to be more intense than the pressure of gain and most of us have an asymmetric reaction to the two” (2018). By saying it is an obvious concept, he is appealing to the audience’s common sense, therefore using logos.

**Compare and Contrast**

The approaches of both artifacts were similar in that they focused their appeals mostly on logos and ethos. Ritter used more pathos than Kahneman but that was not the main way he was trying to relay the information, it was more from the style of his writing. Both artifacts were meant for business professionals, as the first one was published in a peer-reviewed business journal and the second was given at a business forum. Additionally, the context of both is a level that is meant for those who are familiar with business to be able to understand the most. However, the most significant difference is their genres, as one is a speech directed given to an audience of businesspeople and one is an article intended for a similar audience. Another major difference is that the authors are from different fields, Ritter is an economist and Kahneman is a psychologist. Though they are both highly qualified and respected, it implies that the information may emphasize different concepts of the same subject, however they still said very similar things. With that being said, they also had slightly different directions in their discussions. Ritter focused on the market and specific decisions and Kahneman stayed focused on why the psychology affects people. They were also both in support of behavioral finance and agreed that it is an unavoidable and essential part of financial decisions. While Ritter utilized his knowledge on the financial impacts of psychology, Kahneman used his understanding of psychology to explain how and why individuals are affected. This difference, along with slightly different tones, is one of the only differences that separated these two artifacts.

Since the artifacts were so similar in their context, determining which was more effective in communicating why behavioral finance is important and should be used more was very difficult. However, it was decided that Ritter’s paper was more effective than Kahneman’s speech since it provided more market related examples and statistics, when Kahneman’s examples were similar to Ritter’s first half of his paper. In other words, they both included examples of certain concepts of behavioral finance, but Ritter went a step above and used more logos to integrate his understanding of financial markets which emphasizes to the readers the importance of it.

**References**

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