

# Behavioral finance at jp morgan assignment

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Basically, behavioral finance looks at why investors make bad, irrational decisions – whether it's holding on to losing stocks for too long or selling winners too early. JP Morgan Chase, one of the oldest financial services firms in the world, implemented behavioral finance since about ten years ago and has been doing excellent. JP Morgan manages clients' assets through three key business units: Private bank (affluent clients with \$25 million or more in net assets), Private Client Services (client with less than \$25 million in assets), and Asset Management (retail and Institutional Investors).

JP Morgan's behavioral finance runs quite successful. Traditional finance theory held that investors were rational, however, Comptroller, CIO of behavioral finance in JP Morgan believed that Irrational Investor behavior led to market anomalies that could be exploited with a disciplined trading approach. They figured out that the anomalies on outperforming cannot be explained by risk, JP Morgan emphasized two behavioral biases: overconfidence and loss aversion. JP Morgan funds systematically overweight value stocks; they focus on out of fashion stocks that they loudly naturally have bothered with and thus they can avoid overconfidence trap.

In addition, JP Morgan requires a systematic tilt to momentum, which they run winners and cut losers. In this way, disposition effect can be minimized. JP Morgan captured the most critical human behavioral biases that people tend to be overconfident, to seek pride and avoid regret, and these behavioral biases explain why value and momentum stocks have outperformed for such a long period and will continue to prevail in the future. JP Morgan implemented the investment philosophy onto three parts: stock selection, portfolio construction and execution.

One of the reasons why JP Morgan gain such huge success is that managers know they will make money by setting out to do the opposite of what most people “ feel like” doing and they are doing this in an environment. Their portfolios consistently long value and long momentum, which they believe will continue to outperform in the future. Another factor contributing to JP Morgan's success is their distinctive advising services. Under today's competitive environment, making money for their clients is not the only thing; the key to serving clients is to understand customer needs and wants.

JP Morgan has a system to identify the distinct emotive values which drove client investor behavior. After identifying clients' wealth sign and passion points, the advisor then will customize their language, service, and client view to tailor to different customers. Understanding behavioral biases of customers will help managers to establish better relationship with clients, and as a result, lead success to their business. I would definitely agree JP Morgan continue to focus on behavioral finance because they have earned a huge success on both the value/momentum stocks and unique advising services.

The perspective of seeking to understand behavioral biases is remarkable and valuable. Also they should keep running their insight funds. Their insights in behavioral biases helped them better construct portfolios and kept them stand out in the industry. As JP Morgan is now a world-wide company with offices in more than 60 countries, they could consider expanding their behavioral finance concept to other countries. Facing culture shocks and various succeed eventually with their unique insights.