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## **Editorial**

### **Special Issue based on Papers Presented at the Behavioural Finance Working Group Conference in June 2021**

In this special issue we present four outstanding papers that were presented at the Behavioural Finance Working Group (BFWG) Conference in June 2021. The main theme of the conference was to link Behavioural Finance and Ethics, which is promising and fast growing research area, but this was not to the exclusion of other papers in the behaviour finance area which were very well represented at the conference. In this issue we have two papers with a strong ethical element and two papers focusing on investigations linking behavioural research to other aspects of the financial markets.

In the ethical domain of research, we have two complementary papers by Daphne Sobolev and James Clunie. In broad terms, these papers show that the way that individuals' make judgements on what is ethical in financial trading depends crucially on their own background and circumstances. In the first paper 'Predatory trading: ethics judgments, legality judgments and investment intentions' we see that there are substantial differences between the judgements of practitioners and lay people about the ethics of predatory trading and front-running. Interestingly, both groups take substantial account of the legal and regulatory rules around the proposed behaviour when making their ethical judgements although their interpretations of the implications of these may well differ. Thus, there is an important but somewhat opaque relationship between ethics and legality judgments. In the second paper 'Judgments of ethically questionable financial practices: a new perspective' we learn that individuals' ethical and even legal judgements are not invariant but are highly influenced by their financial interests in the matter. When people take the perspective of being a winner in a situation, they judge financial practices to be more ethical than when they take the perspective of being a loser in the situation. Furthermore, their legality judgments and investment intentions can be distorted

by the perspective they take. In a nutshell, to quote from the paper ‘People are rarely impartial about their money’. The situational dependency of ethical judgments which is covered in both papers is relatively little explored and so gives rise to many potentially important avenues for future research.

The next paper by Hans Philipp Wanger and Andreas Oehler explores the puzzle of why households tend not to act on the conventional advice to invest in Exchange Traded Funds that replicate broad and internationally diversified market indices (XTFs). This is a very important issue in terms of potentially improving the financial wellbeing of households. The paper investigates whether the solution to the puzzle might be that households focus on downside-risk measures rather than the standard deviation of returns. As well as the obvious practical importance of this investigation it also advances the key theoretical work on how people evaluate risk which is one of the fundamental issues in behavioural finance. The paper shows that the use of downside-risk measures broadly does not alter the advice to invest in XTFs which is very helpful in practical terms as it shows the robustness of current financial advice and can ultimately only help to improve financial wellbeing.

The final paper by Nazar Habeeb Abbas is a nice addition to the burgeoning literature linking finance and sporting events. In many respects sport represents a very interesting area for the study of behavioural matters as often results have a clear and dramatic effect on the emotions of the participants and supporters. Linking sporting outcomes to financial markets or events can lead to some very interesting insights. In this case, the paper adds to the substantial but inconclusive literature investigating connections between the sporting and financial performance of sports clubs by investigating three of the most illustrious European Football clubs using quarterly data. The results indicate only modest sporting and financial links which will add to our understanding of this rather controversial topic.