# FOREWORD

This book presents an examination of the intricate relationship between human behavior and financial decision-making, with particular regard to wealth management. It is built on a 2012 book by Enrico Maria Cervellati *"Finanza comportamentale e investimenti. Oltre l'approccio tradizionale per comprendere gli investitori"* ("Behavioral Finance and Investments. Beyond the Traditional Approach to Understanding Investors"). On one hand, the book was in Italian, limiting the possibility of being accessible to non-Italian readers. On the other, after 12 years, it needed to be updated. Thanks to the important contributions of Natascia Angelini and Gian Paolo Stella, this book not only updates the materials contained in the previous book but also adds new insights, expanding the topics from investments to wealth management.

The first chapter is dedicated to the behavioral foundations, delving into the origin and progression of behavioral economics and finance, it explores cognitive and emotional biases such as confirmation bias, hindsight bias, the illusion of knowledge and the illusion of control, overoptimism, and overconfidence, as well as status quo bias. The intricacies of heuristics like affect, anchoring, availability, familiarity, and representativeness are discussed. The chapter also covers framing effects, including loss aversion, aversion to a sure loss, and mental accounting, and concludes with a focus on debiasing techniques and choices under uncertainty, highlighting prospect theory.

The second chapter proposes key market anomalies and individual investors' behaviors. Among market anomalies, we consider calendar or seasonal anomalies, cross-section anomalies, event-based anomalies, momentum, and reversal. A deep dive into individual trading behaviors uncovers reasons for underperformance and phenomena such as the disposition effect and under-diversification. The chapter includes a section on evidence from Italy, discussing overconfidence in trading and attention-grabbing behaviors.

The third chapter focuses on the links between behavioral finance and wealth management. This pivotal part of the book integrates behavioral insights into practical wealth management and represents a major contribution compared to the 2012 book on behavioral finance and investments. It discusses motivational theory, the pitfalls of naive diversification, and the biased perception of risk-reward ratios. Behavioral portfolio theory, mental accounting in the context of investment pyramids, and behavioral goals-based wealth management are explored. The chapter examines behavioral profiling beyond risk tolerance, addressing aspects like overconfidence, the role of luck and competence, and the importance of trust and life satisfaction in financial decision-making.

By dissecting biases, market anomalies, and investors' behaviors, the book provides valuable insights for investors, financial advisors, and anyone interested in the intersection of behavioral finance and wealth management.

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