



Journal of Psychology and Financial Markets >

Volume 1, 2000 - [Issue 1](#)

588 | 31 | 0  
Views | CrossRef citations to date | Altmetric

Original Articles

# Investor Overreaction: Evidence That Its Basis Is Psychological

David N. Dreman & Eric A. Lufkin

Pages 61-75 | Published online: 07 Jun 2010

📄 Cite this article   🔗 [https://doi.org/10.1207/S15327760JPFM0101\\_06](https://doi.org/10.1207/S15327760JPFM0101_06)

Sample our  
Behavioral Sciences  
Journals



>> **Sign in here** to start your access  
to the latest two volumes for 14 days

📄 Citations

📊 Metrics

🖨 Reprints & Permissions

Read this article

🔗 Share

## Abstract

Probably no subject in recent financial literature has generated more controversy than whether investors behave rationally in pricing stocks, or whether they overreact to market information, resulting in prices being too high or too low. Although the efficient market hypothesis states that, with minor exceptions, securities are rationally priced, repeated evidence has been presented of predictable over- and underreactions. This evidence is based primarily on consistently higher returns for out-of-favor stocks and below-average returns for favored issues. The existence of overreaction in the marketplace, if it can be proven, is important to both investment decision-making and theory, and in more acute cases can be the major cause of financial bubbles and panics.

We present evidence of overreaction by showing that important fundamentals upon which securities prices depend demonstrate little movement in the face of major changes to the returns of favored and unfavored stocks. We can find no explanation

other than psychological influences to account for this finding. The paper also provides evidence that over- and underreaction may be a part of the same process.

## Related research

People also read

Recommended articles

Cited by  
31

## Information for

Authors

R&D professionals

Editors

Librarians

Societies

## Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

## Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

## Help and information

Help and contact

Newsroom

All journals

Books

## Keep up to date

Register to receive personalised research and resources by email

 Sign me up

