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Investor Overreaction: Evidence That Its Basis Is Psychological

David N. Dreman & Eric A. Lufkin

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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 has been widely accepted, there is a growing body of evidence that suggests that investors do not always behave rationally. This evidence is based on a number of factors, including the fact that investors often make decisions based on emotions, rather than on logic. This paper examines the evidence for investor overreaction and discusses the implications for financial markets.

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evidence that over- and underreaction may be a part of the same process.

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