

Research on Identification of Securities Market Fluctuation Characteristics Based on Behavioral Finance Theory

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Abstract: As the financial field enters a new stage, this paper, based on behavioral finance theory, reveals the challenges and opportunities faced by the economic area through in-depth research on the fluctuation characteristics of the securities market. First, it uses a novel method to explain the relationship between changes in the content of behavioral finance theory and the fluctuation characteristics of securities markets. Second, an in-depth analysis of the challenges brought by behavioral finance theory and the fluctuation characteristics of the securities market is conducted. We pointed out that investors' overreaction led to market imbalances, and volatile decision-making errors caused market risks. In the face of these challenges, we proposed response strategies such as two-way identification, risk sharing, and rational analysis, emphasizing the interconnection between behavioral finance theory and the securities market and the importance of risk governance and regulation. Ultimately, we call for achieving high-quality securities market development and enabling the financial industry to meet social needs by strengthening internal circulation, building interactive mechanisms, and establishing an evaluation system.

1. Introduction

As a significant component of the financial field, the securities market carries the transactions of basic and non-basic financial instruments. The relationship between its fluctuation characteristics and behavioral finance theory has become increasingly prominent. In the current new economic era, innovative changes in behavioral finance theory have become a key element in promoting the development of the securities market. Behavioral finance theory emphasizes the impact of investors' emotions, cognition, and behavior on market decisions, which in turn affects the fluctuation characteristics of the market. This paper conducts in-depth research on the relationship between behavioral finance theory and the fluctuation characteristics of the securities market. It explores the chaos caused by behavioral finance theory in the financial field and the connection between volatile decision-making errors and market risks. Under the guidance of behavioral finance theory, this article puts forward the challenges faced by the innovative development of the securities market industry. It proposes strategies such as two-way identification, risk sharing, and rational analysis to achieve high-quality growth in the securities market. Through measures such as strengthening regulation and supervision, optimizing decision-making and education, and sharing responsibilities and governance, we aim to build a healthier and more stable financial system and keep the rationality and stability of the market. To sum up, the research in this article provides a new theoretical perspective for the economic sector and specific and feasible strategies for the future development of the securities market.

2. Behavioral Finance Theory and the Identification of Securities Market Fluctuation Characteristics to Achieve New Financial Changes

2.1 Innovative Changes in the Content of Behavioral Finance Theory

Behavioral finance theory is a concept developed with the fluctuating characteristics of the

securities market. It reflects the idea of investor behavior, demonstrates the innovation orientation in the financial field, and reflects the theoretical development in the economic area since the behavioral finance theory was proposed [1]. However, when we use traditional financial standards to construct the definition and essence of behavioral finance, it isn't easy to get a clear and complete explanation. Innovations and changes in behavioral finance theory are reflected in the focus on irrational factors such as emotions and cognitive biases in investor decision-making, which provides a perspective beyond traditional financial theory. In addition, behavioral finance theory reveals the profound impact of human behavior on financial market fluctuations. This theoretical change offers a new way of thinking in the academic system and promotes recent changes in finance in practice.

2.2 Behavioral Finance Theory, Securities Market Fluctuation Characteristics, and Identification

Behavioral finance theory and identifying securities market fluctuation characteristics are essential standards in the financial field and are a profound expression of investor behavior. Behavioral finance theory and securities market fluctuation characteristics discuss different definitions of financial markets from behavioral and cognitive perspectives [1]. Some scholars believe that behavioral finance is the degree of investor behavior or the degree of influence of emotional and mental factors in decision-making. It is precisely because behavioral finance is more empirical to a certain extent and belongs to financial science with practical purposes. The development history of behavioral finance can even be traced back to the rise of the behavioral school of economics, whose main activities include the study of investor behavioral psychology and decision-making processes. The concept of the fluctuation characteristics of the securities market is closely related to the market's price formation and fluctuation patterns. By identifying behavioral finance theory and the factors of securities market fluctuations, we can better understand the impact of investor behavior on market fluctuations, making behavioral finance more empirical and becoming an essential part of promoting the development of financial science. The main contribution of the evolution of behavioral finance theory in different periods is to provide an in-depth analysis of investor behavior and provide a more comprehensive understanding of the financial sector. Therefore, behavioral finance concepts initially focused primarily on measures of investor behavior based on empirical standard attributes.

3. Financial Challenges Brought about by Behavioral Finance Theory and the Fluctuation Characteristics of the Securities Market

3.1 Chaos of Behavioral Finance Theory: Investors' Overreaction Causes an Imbalance in the Market System

Unlike traditional financial theory, behavioral finance emphasizes the relationship between investors' emotions, cognition, and market fluctuations. It has empirical characteristics. Although some scholars have questioned whether behavioral finance is directly related to market fluctuations, most believe behavioral finance theory can rationally evaluate investor behavior. It includes the classic model elaborating on investor behavior, including emotion, cognition, and other elements. This model became a typical tool for analyzing investor behavior, which led to the concept of behavioral finance. These scholars argue that investor behavior is irrational and based on "behavioral overreaction." Only when investors overreact will the market lose balance, leading to chaos in the market system. Behavioral finance has gradually become a consensus in financial research and practice. Although it has experienced some practical failures, from a broader perspective, behavioral finance can provide a more comprehensive understanding and profoundly impact financial market fluctuations.

3.2 The Barriers of the Securities Market: Market-oriented Operation under the Backdrop of Excessive Fluctuations

3.2.1 Errors in Volatile Decision-making and Irrational Deviations in Management

The barriers to the fluctuation of the securities market are mainly reflected in errors in volatile

decision-making and irrational deviations in management. Volatility decision-making errors refer to wrong decisions made by investors in the face of market fluctuations. Emotional and cognitive biases often cause errors and are far from rational standards. To overcome this problem, a new model - the behavioral finance framework has entered the research field. The basic concept of this framework is to apply behavioral finance thinking in market operations to conduct a more comprehensive measurement and analysis of volatile decisions by ensuring the effective implementation of investor behavior, setting professional standards, and capturing behavioral decisions through technology. The behavioral finance framework reconstructs the volatile decision-making and emphasizes improving the market's rationality, standards, transparency, and effectiveness. Through this framework, the impact of volatile decisions can be more comprehensively understood and measured, providing a scientific and empirical basis for managing the securities market [2].

3.2.2 Volatility Issues and Market Risks

Volatility is the leading indicator of market risk, focusing on the degree of market volatility and directly reflecting uncertainty and investor sentiment via real-time data. With the development of behavioral finance theory, the components of volatility are gradually taking shape, and various evaluation systems are receiving progressive attention. However, in practical application, some practices are still in their infancy and are inconsistent with the market's logical framework and generation mechanism, creating market risk issues. It shows that although the importance of volatility has been recognized at the theoretical level, it is still necessary to explore its application more profoundly and improve its related systems to more accurately and comprehensively assess the risk status of the market and provide investors with a more scientific basis for decision-making [3].

3.2.3 The Birth of Derivative Risks under the Rule of Behavioral Finance Theory

From the risk management perspective, behavioral finance theory is an essential link in the financial system and the core embodiment of risk management. Therefore, behavioral finance theory takes investor behavior as its main generating logic. Investor behavior is the primary source of derivative risks and the decision-making body for risk management. At the current stage, managers strengthen the control of derivative risks from the perspective of behavioral finance, and there are three primary forms: First, standardize investor behavior. Clarify how investors achieve rational decision-making between emotion and cognition; the second is to formulate behavioral finance standards. By developing investor behavior standards and regulatory standards and disclosing them to the market, we can achieve standardized control of investor behavior; the third is to carry out internal process reengineering. Financial institutions have recently used technical means to improve risk management levels and efficiency. However, compared with traditional risk management, the empirical nature of current behavioral finance still needs to be further enhanced. It is necessary to continuously deepen research and improve relevant standards and control to make managers aware of and manage risks more comprehensively.

4. Innovation and Development Process of the Securities Market Industry under the Challenge of Behavioral Finance Theory

4.1 Two-Way Identification: Address Financial Challenges

The fundamental difference between behavioral finance theory and traditional finance lies in its empirical. The development of behavioral finance is mainly reflected in revealing the impact of investors' emotions and cognition on market fluctuations [4]. In the response strategy framework, accurately analyzing investor behavior, standardizing market operations, and improving market transparency and efficiency are the core values and highest principles for the development of behavioral finance. The diversity of current behavioral finance models and the differences among market participants have led to a complex and ever-changing situation in behavioral finance. Although we progress in behavioral finance in theory, it is still imperfect in terms of empirical evidence and lacks a complete risk management mechanism. Therefore, there is a "short board" in

behavioral finance, which affects its role and effect in the innovation and development of the financial market industry. To eliminate economic challenges, they need to achieve two-way identification. The manager must not only deeply understand the empirical laws of investor behavior but also continuously optimize behavioral finance models and improve their applicability in practice to better respond to changes and challenges in the financial market.

4.2 Risk Sharing: Optimization of the Securities Market's System and Risk Management

4.2.1 Regulation and Supervision of Securities Markets

From the securities market regulation and supervision, the existing regulatory mechanism cannot accurately provide the information investors need. The regulatory mechanism's evaluation of the market is mainly based on satisfaction. However, we need a comprehensive understanding of the market and regulatory mechanisms. The core of this problem may be information asymmetry. Regulators are often described as "supervisors," their market supervision reflects the regulator's opinions. However, the information regulators provide is mostly about regulatory measures, with fewer details on market operations [5]. Often, the actual state of operations is difficult to obtain. Information asymmetry and imperfect regulatory mechanisms directly create obstacles. To optimize the securities market system and risk governance, the regulatory agencies must strengthen the comprehensive supervision of market operations, improve information transparency, and establish a complete regulatory mechanism to deal with institutional problems and risk challenges in the securities market.

4.2.2 Securities Market Decision-Making and Education

From the perspective of securities market decision-making and education, the traditional decision-making model has long restricted investors' decision-making levels. In recent years, people have integrated diverse information and reshaped investors' decision-making thinking. However, the shortcomings of traditional decision-making models restrict investors. Investors' decision-making faces difficulties in obtaining information and is also affected by emotion and cognition. In the era of information explosion, technology is regarded as a direct means to improve decision-making effectiveness. However, the role of technology-based decision-making models in actuality is questionable. At the same time, technical difficulties lead to a lack of understanding among investors of new technologies. Therefore, the desired effect cannot be achieved. It shows that decision-making in the securities market is not only a technical problem but also faces emotional and cognitive problems. To guide investors' decision-making, we need to strengthen investor education and improve their rational understanding of market decisions to respond to changes and challenges in the securities market.

4.2.3 Shared Responsibility and Governance of the Securities Market

The securities market cannot avoid its responsibilities as part of the financial system regarding shared responsibility and governance. Among risk governance mechanisms, risk sharing is a standard and effective tool and plays a vital role in the market. This makes shared responsibility not only a practical concept but also a systemic concept. Therefore, the risk-sharing mechanism focusing on "sharing" has become the risk governance mechanism of the securities market. It is generally a governance path gradually formed based on sharing, and this path includes various attempts. From shared responsibility to shared governance, the securities market has always been closely centered around risks [6]. Managers should be committed to risk sharing to adapt to market requirements. However, as risks increase, a dilemma arises, namely risk sharing. In conclusion, there is still room for improvement in shared responsibility and governance in the securities market. Its governance mechanism needs further improvement, which is also an essential task of the securities market.

4.3 Rational Analysis: Correct Behavior and Maintain the Market

The development of rational analysis aims to build mechanisms and optimization systems to provide investors with a market environment that meets their expectations and focuses on market

development. Although market rationality is not a new topic, the analysis combines behavioral finance theory, securities market fluctuation characteristics, and other elements in an integrated way to outline the rational dimension of the market and expand the technical connotation of the market. It gives the value of combining market and regulation, market and risk, and market and decision-making. The manager has successfully practiced and explored aspects such as standardization, technology, and internationalization, providing experience and reference for the market. However, compared with the requirements of the market's theoretical construction and mechanism design and the current market requirements, the market's development path still needs to be further optimized and closely aligned with market participants' rational decision-making to meet the market's high-quality development.

5. Conclusion

Behavioral finance theory has profoundly affected people's understanding of the fluctuation characteristics of the securities market, which has posed new challenges and requirements to the financial industry. Behavioral finance is a symbol of "intelligence" in the economic field and an essential means to optimize financial decision-making. It is also an urgent need to achieve financial stability and maintain market fairness. It embodies the inherent requirements of the economic field. Behavioral finance theory is to build a theoretical analysis framework and practical mechanism for finance under the guidance of the market. In recent years, the development of modern information technology has promoted innovation in financial behavior. Intelligent technology has empowered financial decision-making and the accuracy of market operations. Its value is in line with the inherent logic of the economic field. Therefore, behavioral finance theory provides a new development way for the financial industry. In short, the sustainable improvement and development of behavioral finance theory can help investors better understand the financial market, improve the efficiency and fairness of the financial industry, and promote the development of the economic field in a more stable direction.

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