The Application of Behavioral Finance in Trading—Analysis from Hainan and Xiong'an Property Market and Stock Market

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**Abstract.** Behavioral finance has once again caused great fever after winning the Nobel Prize in 2017. Many theories can be more confirmed in the capital market. In 2017 and 2018, the establishment of the Xiong'an New District and the Hainan Free Trade Zone, the stocks in these two regions quickly went up, and the property market is also rapidly entering the frenzy. However, the performance and reasons of these two regions are still different. After the Xiong'an stock market experience, in just a few months, the stocks in the Hainan plate are still rapidly rising, and history seems to repeat itself. This paper will analyze the reasons for this phenomenon in these two regions from the perspective of behavioral finance, and the behavioral finance theory existing between the two regions.

**Behavioral Economics and Traditional Economics**

The evolution of behavioral economics is mainly due to the expansion of the rational rationality of economics. Traditional economics assumes the completeness and transitivity of preferences, and it can represent the decision-making behavior of economic agents in the optimal utility model. Among them, the display preference theory relies on strict assumptions. During the period in which we observe people's behavior, consumer preferences are stable, and consumer behavior is rational.

The combination of traditional economic analysis and psychological research results in the formation of modern behavioral economics, which is used to analyze the relationship between human behavior and market and other economic factors. Through psychological experiments and on-site research on individual decision-making behaviors and make it represented by mathematical models to provide a more scientific model foundation for economic research.

**Xiong'an and Hainan's Property Market and Stock Market**

**Xiong'an**

On April 1, 2017, the Central Committee of the Communist Party of China and the State Council decided to establish a national-level new district in the Xiong'an area, becoming another new national significance area after the Shenzhen Special Economic Zone and the Shanghai Pudong New Area. As soon as the news was announced, Xiong'an's property market and stock market had a very obvious reaction. On April 1st, the news of the establishment of the new district was released, and the property market was restricted to purchase immediately; on April 2, buyers were flooded into the vicinity of the new district, and the surrounding property market was hot. On April 5, the ten districts in the vicinity of the new district introduced restrictions on purchases to curb real estate speculation. behavior.

**Property Market.** After the news was released, members of the real estate speculators from all corners of the country went to Xiong'an overnight. Although the news came out, the government completely stopped the first-hand housing, second-hand housing real estate transactions, shut down the sales department and housing agencies, and frozen all house transfer procedures. However, it still failed to block the enthusiasm of the speculators, and private transactions with local homeowners, the price from 4,000 to 5,000 yuan per square meter to more than 20,000.

However, the policy is still very effective, because the business of the Housing Management Office
is in a state of freezing. At present, only the housing lease registration can be carried out, and the sale and purchase cannot be carried out. The price on the market is stable. Among the three counties, Anxin County is near Baoding, and the house price is stable, rising from 5,291 yuan/m2 in May 2016 to 6,354 yuan/m2 in April 2017, an increase of 20%. Xiong County and Rongcheng County, the price of the two counties has finally exceeded 5,000 yuan / square meter since February 2017. As of April 2017, the price of Xiong County was 5796 yuan / square meter, and that of Rongcheng County was 5740 yuan / square meter, respectively. 43%, 35%.

Stock Market. The announcement period coincided with Ching Ming Festival, and there was no immediate fluctuation in stock prices. However, on April 5, the Xiong'an concept stock index also rose linearly, leading the sector for three consecutive days. There are 48 Xi'an New Area concept stocks in the A-share market. Except for the North China Expressway and Ziguang Guoxin, the stock price increase from April 1 to May 3, 48 stocks of the Xiong'an New Area concept stocks. There are 20 companies with an interval of more than 30%, including 9 companies with stock prices exceeding 50%. It is worth noting that after the establishment of the Xiong'an New District for just one month, on May 2nd and May 16th, the concept stocks of Xiong'an New District were once again “crazy”, and many companies' stocks rose daily, showing a wave trend.

The ups and downs of Xiong'an New District have been under the Shanghai and Shenzhen 300 Index, and the trend is highly consistent. However, at the end of March 2017, the rise and fall of Xiong'an New District has a cliff-like rise, far higher than the market's ups and downs, it can be seen that the Xiong'an new district concept stocks are frenetic.

![Figure 1. Comparison of the ups and downs of Xiong'an New District.](image)

Example of Individual Stocks. The stock price increase of Jidong equipment can be described as “anti-day”. From April 5 to May 15, the company's stock price has gone out of 12 daily limit. The company's share price has soared from 14.14 yuan/share, and closed at 45.8 yuan on the 15th. Shares, one and a half months, the company's share price rose 2.23 times. Similarly, Xianhe Environmental Protection Co., Ltd. also went out of 9 daily limit from April to May 3, and the company issued 4 stock transaction announcements. In addition, the price of Hebei Xuangong has increased by 52% from April 1 to May 3. Although several of the above companies disclosed the transaction announcement a few days later, indicating that their company did not conduct business in Xiong'an and had no assets in Xiong'an, the establishment of Xiong'an New District had not had a major impact on the company's operations, but it still could not be stopped. The trend of rising stock prices.

Hainan

The Property Market in the 1990s. Hainan's property market had a bubble in the 1990s. At the beginning of 1992, Hainan’s provincial and SAR effects were also fully released. At the peak, there were more than 20,000 real estate companies on the island with a total population of 1.6 million. No one knows who the house is sold to. According to the “China Real Estate Market Yearbook (1996)” statistics, in 1992, Hainan's real estate investment reached 8.7 billion yuan, accounting for half of the total investment in fixed assets. Only Haikou's real estate development area reached 8 million square
meters. In 1991, more than 100,000 yuan / mu soared to more than 6 million yuan / mu. In 1988, the average price of commercial housing in Hainan was 1,350 yuan / square meter, and in 1991 it was 1,400 yuan / square meter. In 1992, it rose to 5,000 yuan / square meter. In 1993, it reached the peak of 7,500 yuan / square meter, just three years. The growth has exceeded 4 times.

**Stock Market.** On April 09, 2018, President Xi Jinping clearly pointed out in the report of the 19th National Congress that he actively explored the construction of a free trade port. On April 14, the Central Committee of the Communist Party of China and the State Council officially issued the "Guiding Opinions on Supporting Hainan's Comprehensive Deepening of Reform and Opening-up" through the Xinhua News Agency.

The orientation of the policy is clear, and people are also eager to get rid of it. Once the news is sent, it will attract the attention of many media, the investor boom, and speculative trading. Good news has been announced, Hainan's capital inflows of 823 million yuan, ranking first, is nearly three times ranked second in Hebei. Figure 2.2.2 The heat map of the Hainan plate can be clearly seen rising sharply in mid-April. On April 16th, the stock market opened. Among the 30 Hainan plate stocks in the market, except for 6 stocks that were suspended, the other 24 all rose, 21 of which were daily limit, accounting for 87.6%. Among the concept hotspots, Hainan's concept of Hainan's state-owned assets, Hainan's tourist islands, and horse racing increased by 7.99%, 7.06%, 5.58%, and 3.57%. Even the hippocampus, which similarly had a profit loss of 994 million in 2017, opened on April 16 and quickly went up.

However, the stock price began to fall in the afternoon of April 17, the Hainan plate was sold by 5.3 billion, and the net outflow of 10 shares exceeded 100 million yuan. On the 16th, the Hainan plate, which was affected by heavy news and good news, the Hainan plate was significantly differentiated. HNA Innovation, Xindazhou A, and Minda shares were trading daily. In the afternoon, the shares of the Straits closed down and the stocks in the sector were sold off by the main funds. There are 20 stocks showing a net outflow of large single funds.

![Figure 2. Heat trend of Hainan plate.](image)

**The Cause of the Phenomenon**

**Overreaction.** Investors are caused by systemic psychological cognition bias under uncertain conditions. When investors face sudden or unexpected events, they tend to pay too much attention to the information at hand and ignore the information. Although the government and related companies have made announcements, to a certain extent, they have told investors to make rational investments. However, in the eyes of investors, the Xiong'an New District has a thousand years of hardship. As long as it is a house there, whether it is formal or not, it will be at hand. Make money, dip the stocks, whether you have business or not, you will double your purchase. It is this irrational over-expectation that will push Xiong’an investment to madness in the short term.

After the news of Hainan Construction Free Trade Zone was announced, investors saw that the state paid more and more attention to the construction of Hainan Special Economic Zone, and began to actively invest funds in Hainan stock market. They believe that regardless of the company's operating conditions, Hainan’s listed company stocks Will be madly rising under the guidance of the
policy, this irrational investment behavior also caused the false prosperity of the stock price of the day, the stock investors are too high for the stock market expectations, and the interests are stunned. After one day, the inflow and outflow of funds was huge, and the fluctuation of stock prices fluctuated greatly in just one or two trading days, which led to huge fluctuations in the stock market.

**Herd Behavior.** Herd behavior, is a phenomenon in which investors follow and imitate the investment behavior of others when the information is not fully grasped or the information obtained is too high. Regardless of whether it is the property market or the stock market, most investors are incomplete information, and in fact, there is no deep understanding of Xiongan real estate and related stocks, but the wave of public opinion has come again, causing many investors to bravely follow suit. Then, there are a large number of investors pouring into the market, frantically speculating and pushing prices up. Hainan is at the same time that institutional investors began to re-stock the Hainan plate stocks, many retail investors seem to have sniffed money information, have rushed to follow the stock market, began to frenzied, so much that they lost the basic stock market analysis skills. The blind pursuit of chasing, Hainan plate stocks have quickly increased daily limit, positions were stuck.

**Limited Attention.** It is difficult for people to deal with multiple pieces of information at the same time, paying attention to the same thing at the expense of the attention of another. Under the condition of “information flooding”, people tend to focus on significant stimuli while ignoring fuzzy stimuli. After the announcement of the policy, the most significant information on the market is the Xiongan New District, so the investment in Xiongan will be more inclined and favored by investors. Moreover, investors are closely watching the "millennial plan" and think that this is a rare opportunity. The influx of funds has caused the stock price of Xiongan to rise three times. Similarly, the introduction of the Hainan Free Trade Zone policy has attracted major institutional investment and numerous retail investors. Hainan's stocks have received excessive attention. Retail investors have invested their money in the stock market, pushing stock prices to rise rapidly, and retail investors only pay attention to The future development prospects of the Hainan plate are not considered for the current situation of individual stocks. To some extent, they ignore the performance development of listed companies, ignore the losses behind them, the vision occurs, and the stock price falls, becoming the takeover of institutional investors. The loss of the stock price after the sell-off.

**The Similarities and Differences**

**Commonality**

Both attracted many investors. It goes without saying that the driving force of the policy is huge. Whether it is Xiongan or Hainan, the announcement of favorable policies, or the announcement by the government, gives investors a more realistic and reliable investment signal. The market is sensitive to policy news. Therefore, as soon as the news was announced, investors were coming. The stock price changes are obvious and fast. The stock price is quickly pulled to the daily limit, and more than half of the stocks in the stock market have a daily limit. Judging from the fluctuations of the Hainan concept and the Xiongan New District Index, the short-term after the announcement of the news, the overall is a cliff-like rise. Among the related concept stocks, many stock prices are rapidly rising. Individuals have been up and down for several consecutive days. The concept stocks of Xiongan are even more crazy. The stock prices of many stocks have been on the daily limit for nearly 10 days, and the stock price fluctuations are obvious.

**Differences**

**Differences in Causes.** Expectations are different. Xiongan had no wind beforehand. Before the announcement of the news, there was no wind in the market, which was born in the sky. Hainan coincided with the 30th anniversary of the establishment of the provincial special economic zone. When the government announced that there would be significant positive news, it basically learned how the policy was. Different policy positions. Xiongan is a millennium plan, and the government
attaches great importance to it. Hainan is a regional measure in the development path. Although it has also given great attention, the news has different responses in the market. Investors have different reaction times. In the Xiong'an New District, when the policy was just announced, there were still institutions to wait and see, and there was no rush to enter. Before Hainan's policy was officially announced, the information on the market was basically clear, so investors quickly entered before and after the policy was announced.

**Differences in Performance.** The response time of the policy is different. Xiong'an was quickly under the control of the government. Within 12 hours after the announcement of the news of the establishment of the Hebei Xiong'an New District by the Central Committee of the Communist Party of China and the State Council, the transactions in the real estate market of the three counties of Xiong'an New District have been completely frozen. In Xiong County, the account has also moved in. freeze. Judging from the trend of housing price growth, it has effectively shaken the behavior of real estate speculation. The stock price trend is different. Xiong'an's share price has risen several rounds. After the stock price of Xiong'an on April 5, 2017, the stock price rose rapidly and showed a wavy trend. Hainan is rapidly rising and falling rapidly.

**Behavioral Finance in Differences.** Familiar with the effect. Familiarity is a tendency and bias in which an investor changes his or her personal risk perception based on his or her familiarity with the risk event. The most familiar investors in recent years are just the property market and the stock market. Under the media and market education, many people have been able to better control risks and see some short-term trends in the market. When this hot spot appeared, most people naturally thought of putting money into their familiar property market and stock market, causing the market to overheat. Then, when the Hainan policy was announced, many investors saw similar policies from the stock market madness of Xiong’an New District last year, so they would think that it was another opportunity, and similar situations gave investors a good signal. In a similar situation, I think I have experience and can invest again. However, the policies of Xiong’an and Hainan are still very different. Some investors realized this difference in the face of the Hainan plate. As a result, after the influx of funds from many investors, the stock price fell rapidly on the following day.

Over confidence. People tend to be too convinced of their ability to judge, overestimate the probability of their own success, attribute their success to their own abilities, and underestimate the role of luck, opportunity, and external forces. After the policy of Xiong’an New District, the response to the Xiong’an New District was quite strong in the market, especially in the stock market. Individual stocks even appeared for more than a dozen daily limit. Therefore, after the Hainan policy was announced, many investors thought that this was the same good news as Xiong’an, and the stock market would be good, and investors would think that in the Hainan plate, with the previous lessons, they can learn from the previous experience and make a difference., can get rich benefits from it, but ignore a lot of details and external information.

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