4a. Traps

Some of these traps are our own cognitive biases.

A comprehensive manual on these biases is given in Kahneman and Tversky's research (Kahneman, "Thinking Fast and Slow", 2011, ISBN: 978-0374275631). Among them:

loss aversion (investors perceive a dollar lost and a dollar gained differently than their percentage value),
overconfidence (confidence greater than predicting abilities),
confirmation bias (viewing information that confirms our view as more important),
availability heuristic (focusing more on recent data and developments, fresh data as more important).

Yet, as Mauboussin points out, **it is not simply the existence of individual biases that spurs behavioral inefficiencies** on a market. They could be, hypothetically, cancelling each other out.

It is an extreme correlation between opinions among market participants that is dangerous, when the "wisdom of crowds" turns to the "madness of crowds".

5. Factor investing

A popular quantitative investing technique in recent years is called “**factor investing**” or “**smart beta**”.

It relies on “**factors**” — quantifiable features that explain differences in stock returns of a subset of stocks vs a market index.