

Behavioral Risk

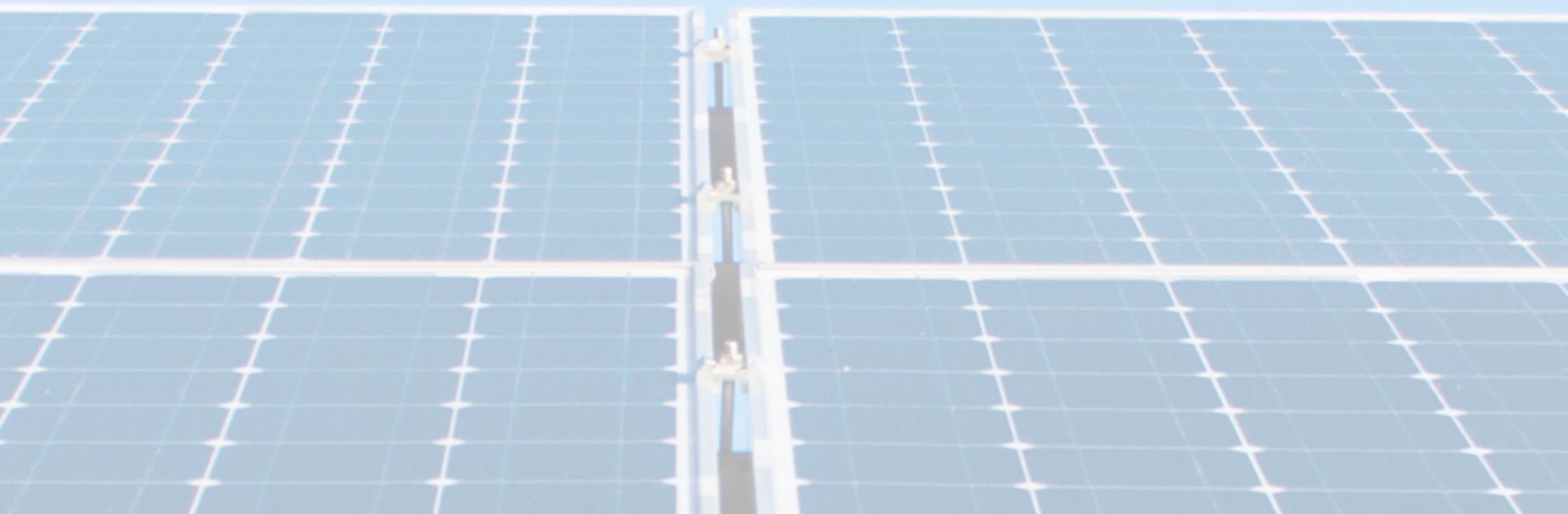
**How Market Perception of ESG
Drives Beta Volatility**



What Is Behavioral Risk in ESG?

Behavioral risk = When investor perception of ESG, not fundamentals, moves markets.

- 👉 **It affects volatility, valuation, and capital flows.**
- 👉 **It's emotional, fast, and can distort real risk.**



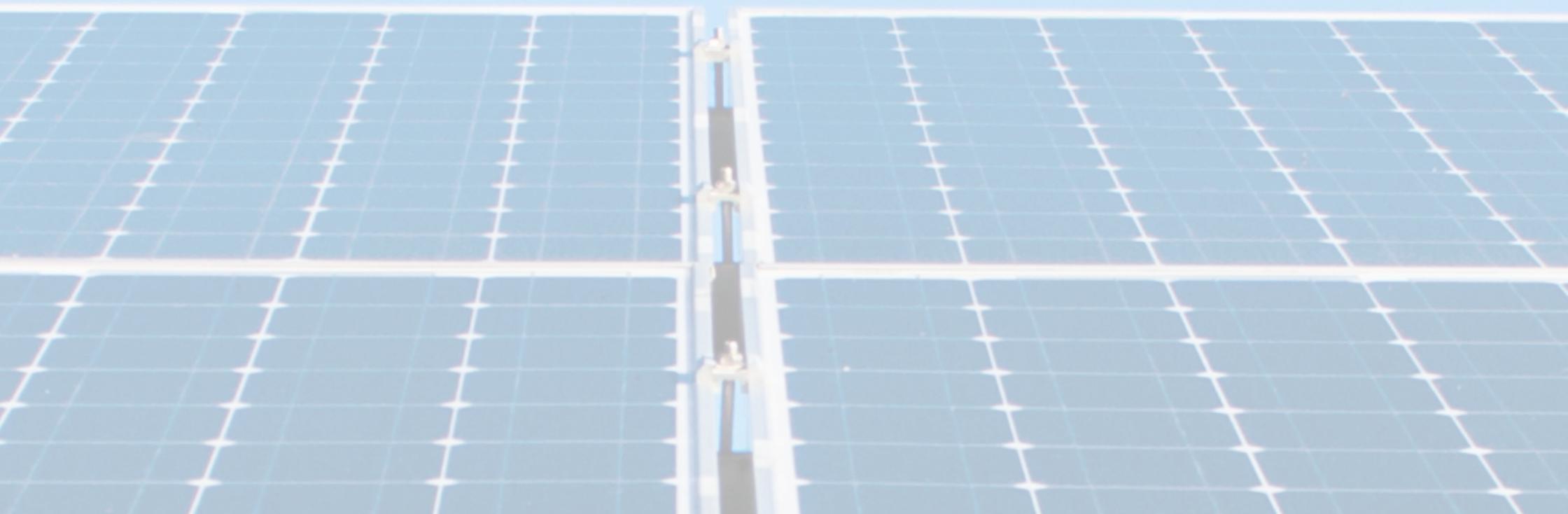
Why Beta Matters

Beta = how a stock moves vs. the market.

 **High beta → more volatile.**

 **Low beta → more stable.**

But what if ESG perception changes beta?

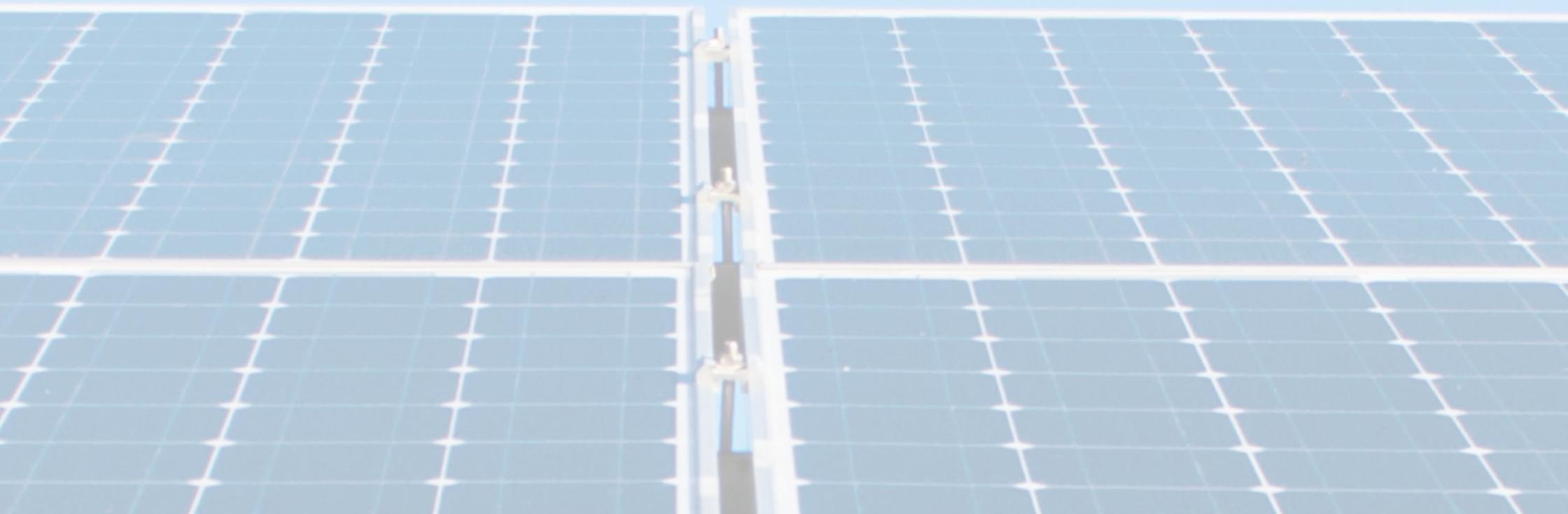


Real-World Case - Tesla

 **Tesla dropped from S&P 500 ESG Index (May 2022).**

 **Beta jumped from 1.8 → 2.2 in 2 weeks.**

Nothing changed in operations—just perception.



Why This Matters to Investors

✓ ESG isn't just about long-term sustainability.
! It's now a short-term sentiment risk.

🎯 Model it like you model currency or policy risk.

Takeaway

If ESG can change beta →

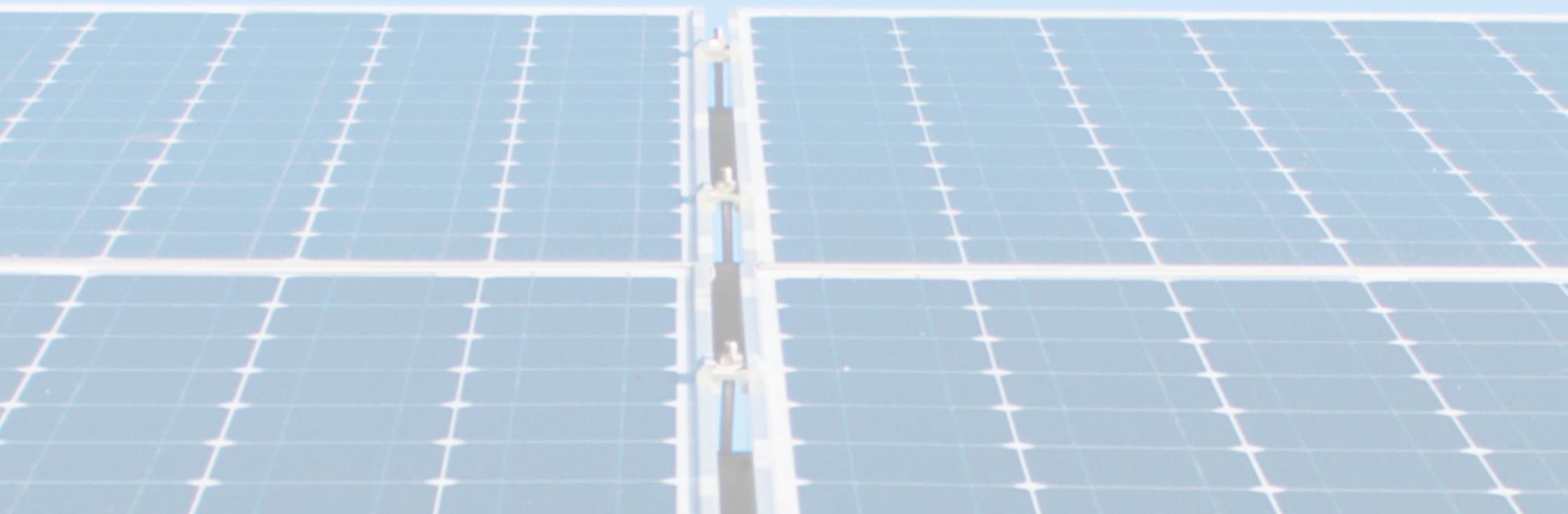
It can also affect:

 **WACC**

 **Valuations**

 **Portfolio exposure**

Let's bring behavioral ESG risk into financial models.



Behavioral ESG Risk = Volatility Risk.

It's measurable. It's real. And it's growing.

