



Investor happiness



Christoph Merkle^{a,*}, Daniel P. Egan^{b,c}, Greg B. Davies^{b,d}

^a Department of Banking and Finance, University of Mannheim, Germany

^b Behavioural and Quantitative Finance, Barclays, London, UK

^c Betterment.com, New York, NY, United States

^d Saïd Business School, Oxford, UK

ARTICLE INFO

Article history:

Received 16 July 2014

Received in revised form 18 May 2015

Accepted 29 May 2015

Available online 3 June 2015

JEL classification:

D14

G02

G11

PsycINFO classification:

3920

Keywords:

Happiness

Anticipation

Experience

Return expectations

Individual investors

ABSTRACT

We study investor happiness in a panel survey of brokerage clients at a UK bank. When investors anticipate future happiness, they set their return aspirations according to personal portfolio risk, objectives, investment horizon, confidence, and other individual characteristics. They are accurate in their forecasts, only rarely are investors unhappy with outcomes they predicted they would be happy with, and vice versa. However, determinants of experienced happiness only partially correspond to the ones found for anticipated happiness. In particular, relative performance plays an important role investors do not anticipate. Having outperformed other people contributes to investor happiness, as does active trading success.

© 2015 Elsevier B.V. All rights reserved.

1. Introduction

Investor happiness is often seen as a mere byproduct of the consumption opportunities arising from investment returns. It is buried in utility functions which relate only remotely to actual events in the stock market. The endeavor of this article is to present investor happiness in a more realistic light. We attempt to reveal the determinants of happiness when forming financial market expectations and when experiencing investment outcomes. These insights into investor happiness will contribute to an improved understanding of investing behavior and the preferences of individual investors.

To do so, we use investment-related anticipation and experience of happiness as expressed by private investors, collected in a panel survey at a large UK bank. Following happiness research in psychology (e.g., Argyle, 2001; Bradburn, 1969; Kahneman, Diener, & Schwarz, 1999), we rely on subjective assessments of happiness, which are increasingly accepted in economics as well (Di Tella & MacCulloch, 2006; Easterlin, 2001; Frey & Stutzer, 2002). We extend this literature by transferring its survey-based methodology to the domain of investing. Participants evaluate their experienced investment

* Corresponding author. Tel.: +49 (0)621 1811531.

E-mail address: chmerkle@mail.uni-mannheim.de (C. Merkle).

performance on a scale from good to bad. And they provide levels of future portfolio returns they anticipate being happy or unhappy with, respectively. We portray in detail the development of these happiness measures in our sample.

As a first main contribution, we investigate the determinants of investor happiness, which can be roughly classified in three groups: investment-related, socio-demographic, and psychological. For anticipated happiness we identify a close relationship to portfolio return expectations. An additional influence of the level of portfolio risk taken, investment objectives, and investment horizon, gives rise to an interpretation of happiness thresholds as aspiration levels. But this picture is incomplete without considering demographic and psychological factors, such as gender, anxiety or confidence. Our results provide insights concerning financial expectation formation (Vissing-Jørgensen, 2003; Weber, Weber, & Nosić, 2013), as the way people construct their happiness anticipation is informative about the factors they believe to be important.

The variables identified have only modest explanatory power for experienced happiness; past investment performance in this case clearly dominates. Both absolute performance and relative performance (i.e., where one stands relative to other investors), are important for happiness. The influence of this individual outperformance persists even after controlling for total portfolio return, which suggests positional concerns as predicted by happiness research for income (Diener, Sandvik, Seidlitz, & Diener, 1993; Easterlin, 1995). Besides investment performance, we test for other factors contributing to happiness which have been proposed by the finance literature, such as active trading success (Summers & Duxbury, 2012), investing as entertainment (Dorn & Sengmueller, 2009), or gambling (Kumar, 2009). We find evidence that people respond to returns more strongly when responsible for their own performance compared to owning delegated or passive buy-and-hold investments. In contrast, there is no direct effect of entertainment or gambling on happiness.

Our second major analysis concerns the consistency between anticipated and experienced happiness, which we can confirm to a surprising degree. When returns exceed the anticipated threshold for being happy, investors in most cases are indeed happy. Conversely, they are unhappy when returns fall short the anticipated threshold for unhappiness. Intertemporal inconsistencies observed in other cases of predicting utility (Kahneman, Wakker, & Sarin, 1997; Loewenstein, O'Donoghue, & Rabin, 2003) seem to be largely absent in our context. In the rare cases that people err this is likely due to an underestimation of the impact of relative performance, because participants do not *ex ante* consider its role as a determinant for happiness. The predictive power of anticipated happiness survives in a multivariate setting, where it turns out that it contributes to experienced happiness beyond what is explained by performance. Of two investors with the same portfolio return, the one who predicted to be happy with a given return, actually is happier.

2. Literature and research questions

Our study builds on descriptive and prescriptive approaches in defining the utility of investing. While in standard modern portfolio theory utility depends on the expected return and variance of investments (Markowitz, 1952), later work ties utility closer to consumption (Merton, 1971; Samuelson, 1969). In particular, in models such as the consumption-based CAPM (Breedon, 1979; Lucas, 1979) or general equilibrium models (Cox, Ingersoll, & Ross, 1985), investing mainly serves the function to shift funds from today to tomorrow. There is no utility directly from investing, but from consumption opportunities arising from returns on investment. The advantage of this objectivist approach to utility is that it has a solid theoretical foundation and relies only on observables such as revealed preferences. However, it may miss some aspects of the investing process, which are very important to investors, and is also silent about the factors that shape people's preferences.

There are attempts in the direction of linking utility more closely to investing itself, as exemplified by the concept of “realization utility” (Barberis & Xiong, 2011; Ingersoll & Jin, 2013). In this model, investors derive utility from realizing gains and losses, and a burst of utility occurs right at the moment of an asset sale. Frydman, Barberis, Camerer, Bossaerts, and Rangel (2013) provide some empirical evidence for realization utility. It is likely that this is not the only source of utility in investing and we will consider several potential drivers of personal utility for financial market participants. To empirically identify these sources, we require a way to measure investor utility. Frey and Stutzer (2002) argue that observed behavior provides an incomplete picture of individual well-being or utility. Instead, we rely on survey questions that directly elicit subjective happiness. This subjectivist approach has a long tradition in psychology (for reviews see Argyle, 2001; Kahneman et al., 1999; Myers, 1992) and has gained some popularity in economics (Di Tella & MacCulloch, 2006; Easterlin, 1995; Frey & Stutzer, 2002).

Happiness is defined in this literature as subjective well-being and is thought to be closely related to experienced utility or to be a subjective measure thereof. To the extent that subjective happiness reflects utility, we are able to identify relevant drivers of utility from the investors' point of view. The advantage of this top-down approach is that we can consider a variety of aspects at the same time at the expense of being less formally grounded in theory (Ryff, 1989). But there is some recent work connecting objective and subjective measures of utility (Oswald & Wu, 2010). It suggests that survey responses are meaningful and commensurate with objective data.

Unlike many studies of overall happiness or general life satisfaction, we focus on happiness with regard to a specific aspect of life. In a similar way, for example, job satisfaction and marital happiness have been investigated (Argyle, 2001; Clark & Oswald, 1996; Furnham, 1991). We interpret investor happiness as a part of overall happiness (or well-being). We further distinguish between anticipated and experienced happiness by addressing them separately in the survey, in analogy to anticipated and experienced utility (cp. Kahneman et al., 1997). The analysis is organized around several research questions, the first of which explores the determinants of happiness:

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات