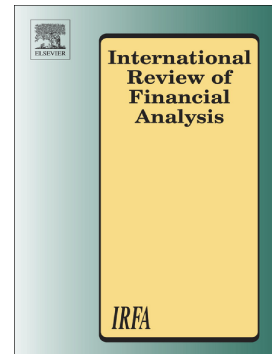


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# RISK PERCEPTION IN FINANCIAL MARKETS: ON THE FLIP SIDE

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## ABSTRACT

We propose an alternative approach to capture the asymmetric risk-return relationship in financial markets using affective cognitive analysis. Implied volatility is employed as a robust gauge of risk perception. Markets exhibit a dramatic increase in fear sentiment when extreme upper-quantile losses hit investors while conditional positive returns fuel exuberance. However, an inverse response is observed in Asian markets due to normative societal phenomena, such as herding. A cognitive paradigm provides with a better interpretation of contagion than classical leverage-feedback theories as risk perception evolves dynamically over time. Overall, the fear of losses is not the flip side of gains' exuberance.

*JEL classification:* G1; G14; G15; C5

*Keywords:* fear gauge; affective reaction; herding; implied volatility; behavioral bias

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