

Preface

Behavioural finance explores the various anomalies that exist within financial markets, but does not provide insights into the motivations that drive these phenomena. Merely documenting such phenomena is insufficient, and studying the motivations behind these decisions will provide greater understanding into how and why such occurrences take place. A psychological theory, regulatory focus theory, has been applied to gain insight into the motivations that underlie one's financial decisions. Regulatory focus theory explores the relationship between the motivation of a person and their means of goal pursuit. Regulatory focus refers to how one approaches pleasure, but avoids pain. There are two regulatory foci, promotion and prevention. The promotion focus is on hopes and accomplishments (gains), and the prevention focus is on safety and responsibility (non-losses). These foci regulate the effects one is exposed to during the decision-making process, thus determining the way one achieves a particular goal. There exists a dominant or chronic regulatory focus and a temporary regulatory focus that can be brought upon by introducing certain stimuli (priming). Priming is an effect wherein exposure to a particular stimulus influences how one reacts to a later stimulus. Previous research involving regulatory focus and financial decision-making involved primed states of regulatory focus and established that certain assets are associated with particular regulatory foci. However, as consumers tend to make financial decisions prior to priming, this book studies how consumers' chronic regulatory focus affects financial decision-making. In this book, financial decision-making was modelled by the selection of assets and portfolios. Two main hypotheses are thus advanced. Hypothesis 1 tests whether chronic regulatory focus affects asset selection; whether chronic promotion and prevention participants select promotion and prevention assets, respectively. Hypothesis 2 tests whether chronic regulatory focus affects portfolio selection; whether chronic promotion and prevention participants select promotion and prevention portfolios, respectively. In addition, gender ($H\alpha$), age ($H\beta$) and education ($H\gamma$) are associated with financial decisions; further hypotheses are advanced to explore whether these are related to asset and portfolio selection and regulatory focus.

Two complementary instruments, the eye tracker and self-report, were used to explore the hypotheses. The use of two measures is proposed to limit social desirability bias, especially since the eye tracker is an objective instrument. Participants were shown the asset selections, followed by the portfolio selections on the eye tracker, then were given the same allocation scenarios on the self-report. Participants who spent a greater proportion of time looking at a particular asset or portfolio thus indicated their selection/preference on the eye tracker. For the self-report, participants made their selection in the space provided.

The results indicated that the main hypotheses were not supported. Most participants selected the prevention asset on either measure and did not choose portfolios in accordance with their foci. Overall, chronic regulatory focus does not cause participants to select/prefer assets or portfolios that are associated with their regulatory foci. $H\alpha$ and $H\gamma$ were supported indicating that gender and education are associated with regulatory focus and asset and portfolio allocation. Results indicate that females are less likely to select a prevention portfolio, but the relationship is weaker for those with a chronic prevention focus. Those who are chronic prevention-focused and possess a higher degree are more likely to look at the prevention portfolio for a proportionately longer time. $H\beta$ was unsupported, indicating that age may not be related to regulatory focus and financial decision-making.

It is proposed that the main hypotheses were unsupported as participants were influenced by the effect of the unfavourable world financial climate, overriding the effect of their chronic regulatory focus. Seminal priming studies are currently facing issues regarding replicability, and this book postulates that events such as financial crises may be causing this effect. The eye-tracker results indicated that while participants may look at certain assets or portfolios for a proportionately longer time, they may not select it on the self-report. The eye tracker is purported to give insights into the type of information viewed by consumers but does not provide clear indication of whether this information was used to make an associated financial decision. The book then provides some avenues for future research.



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