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PERSONALITY AND INVESTMENT DECISIONS

The following information is related to a study you may have participated in during November 2021. If you participated in this study, you completed an online survey (via Prolific) about several personality traits and hypothetical investment decisions.

The main personality trait of interest to this research was self-compassion, or how kindly we treat ourselves during times of struggle. One of the questions this study tried to answer was, how does self-compassion affect our willingness to take risks when making hypothetical investment decisions?

In previous research, being more self-compassionate has already shown the potential for promoting happiness and life satisfaction (Gunnell et al., 2017). Some of the previously studied reasons are more effective coping with negative social pressures or life events, reduced fear of negative social evaluation, and increased self-improvement motivation (Kelly & Tasca, 2016; Zhang et al., 2019).

The goal of this study was to examine another possible factor, which could be related to promoting life satisfaction, and which we are calling *loss-insensitivity*. The idea here is that when highly self-compassionate individuals have to make decisions involving risk or uncertainty, given their history of dealing well with adverse outcomes they have experienced in the past, they might be relatively unconcerned about a loss if it occurs in the future. This idea led to the prediction we tested here, that participants higher in self-compassion would show higher willingness to take risks when making hypothetical investment decisions.

KEY FINDINGS

A total of 305 respondents completed the survey assessing self-compassion, several other personality traits related to decision-making, and investment decisions in a series of hypothetical scenarios. The scenarios were constructed so as to maintain equal expected values in each series, but to balance increasing chances for loss with higher amounts that could be won.

Among the other personality traits related to decision-making were regulatory focus (Higgins et al., 2001), regulatory mode (Kruglanski et al., 2000), and personal fear of invalidity (Thompson et al., 2001). Among the investment decisions were a series of unframed decisions giving only probability information (e.g., even chances to double vs. lose your investment), a series of positively framed decisions (e.g., gain X amount for certain, or take a given chance to determine if you gain nothing vs. even more), and a series of negatively framed decisions (e.g., lose X amount for certain, or take a given chance to determine if you lose nothing vs. even more).

Before any decision, individuals vary in the extent to which they are concerned with attaining gains (promotion focus), avoiding losses (prevention focus), giving thoughtful consideration to one's current status and all available options (assessment mode), taking swift and decisive action to pursue a goal (locomotion mode), and making the wrong decision (fear of invalidity). Using the above-mentioned personality measures, we found that individuals with higher self-compassion showed lower fear of invalidity, lower preference for assessment mode, higher preference for locomotion mode, and higher focus on gains than on losses when making any type of risky decisions.

Regarding hypothetical investments, in the unframed scenarios, participants higher in self-compassion were willing

to invest more in the highest-risk scenario we offered (i.e., 1-in-6 chance to receive six times your investment). Specifically, from a starting amount of \$3,000, someone with an average amount of self-compassion would invest an estimated \$259, whereas someone in the top 5% of self-compassion would invest an estimated \$350.

In the framed scenarios, we found that self-compassion was related to risk-taking only in the positively framed series of investment decisions. Participants who took the risky option for even more (vs. a certain gain) in all three scenarios of increasing risk had higher self-compassion, on average, than those who took the risky option in two, one, or none of these same scenarios.

FUTURE DIRECTIONS

There is a limit to what we can learn about actual investing and risk-taking from studying hypothetical investment decisions. As a participant in this study, would you have behaved differently if you were using your own money, or if you had feedback on the results of your decisions, as real investors do? This is something we can determine from future studies of decision-making in real time and with real consequences.

What these abstract problems show, however, is that people who are high vs. low in self-compassion may not approach investing in the same way. As we hope to understand better through our future research on the idea of loss-insensitivity, those higher (vs. lower) in self-compassion appear to show broad predispositions to focus on potential gains, act immediately, and not worry about negative consequences. They also show in-the-moment tendencies to invest more in a given risky proposition, and to prefer the chance of a large win over a certain but smaller win.

If you have any questions or concerns about this study, please contact:

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Thank you again for your participation!