

The effect of attitude in life on the willingness to take financial risk

By Jesse Owie

INTRODUCTION

- What is the relation between attitude in life and financial risk willingness?
- Why would this be interesting?

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PREVIOUS LITERATURE

- Pessimism linked to higher levels of avoidance.

Milhabet, Barbenchon, Cambon and Molina(2015):

'Comparative pessimism or optimism: Depressed mood, risk-taking, social utility and desirability'

- Mood Maintenance and Affect Infusion

Grable and Roszkowski(2008) :

'The influence of mood on the willingness to take financial risks'

Yuen and Lee(2003):

'Could mood state affect risk-taking decisions?'

- Financial risk taking declines with age

Bonsang and Dohmen (2012):

'Risk attitude and cognitive aging'



WHY SHARE?

- Big sample
- Information from recent years (wave 5: 2013)
- Large set of variables including risk behavior and attitude related variables
- Original number of observations: 65281

Observations left after sample construction:
57619

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VARIABLE OF INTEREST(1)

SHARE respondents are asked:

"When people invest their savings they can choose between assets that give low return with little risk to lose money, for instance a bank account or a safe bond, or assets with a high return but also a higher risk of losing, for instance stocks and shares.

Which of the statements on the card comes closest to the amount of financial risk that you are willing to take when you save or make investments?"

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VARIABLE OF INTEREST(2)

Then they choose their answer from this show card:

34

1. Take substantial financial risks expecting to earn substantial returns
2. Take above average financial risks expecting to earn above average returns
3. Take average financial risks expecting to earn average returns
4. Not willing to take any financial risks

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Distribution of responses

Risk aversion	Percentage
Substantial risk	1%
Above average risk	3%
Average risk	22%
No risk	74%

EXPLANATORY VARIABLES

1. Demographic variables
2. Cognitive abilities
3. Behavioural variables
4. Financial distress
5. Attitude in life

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LIFE ORIENTATION TEST

Example:

- “If something can go wrong for me, it will.”
- “I’m always optimistic about my future.”

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What do you see?



$1/2$ FULL?



$1/2$ EMPTY?

Distribution of scores

Adjusted Life Orientation Test (LOT)

Attitude Score	Percentage
Low	12%
Moderate	29%
High	59%

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METHODOLOGY

➤ What is the relation between attitude in life and financial risk willingness?

Ordered logistic regression.

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RESULTS

	Odds Ratio	Std. Err.
Moderate Attitude	1.266	0.057
High (positive) Attitude	1.414	0.063

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ROBUSTNESS

- Binary dependent variable
- Asset allocation as dependent variable
- Numeric attitude score

CONCLUSION AND FURTHER RESEARCH

Positive relation between a more positive attitude in life and the willingness to take financial risk

Possible improvements

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THANK YOU

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SAMPLE USED

Wave 5 contains 65281 observations

- -2525 (Missing answer for Dependent variable)
- -952 (Aged below 50)
- -4185 (Missing Independent variables)
- Total of 7662 observations excluded

57619 observations used in sample

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