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Asians Are Influenced By Emotions When Making Investment Decisions

New Study Analyzes Investor Psychology in Hong Kong, Singapore and Taiwan

June 28, Taipei - When it comes to money and investing, Asians like other people in the world do not necessarily follow rational economic theory. A significant number of investors in Hong Kong, Singapore and Taiwan make financial decisions using their emotions, rather than relying on logical decision-making.

These are key findings of a new, groundbreaking report "The Emotion Behind Investing - A Citibank Study of Asian Investor Psychology". The report examines investment behaviour and shows how Asians can be overconfident, highly averse to loss, and allow fear of regret to impact their investment decisions. A comparative analysis of Asian investor behaviour against US investor trends (based on other independent third-party journals) is also reviewed.

The first and only study of its kind in Asia Pacific, "The Emotion Behind Investing" was conducted by Anil Gaba, Professor of Decision Sciences and Dean of Faculty and Research at INSEAD's Asia campus, along with two of his colleagues, Pierre Hillion, Professor of Finance, and Klaus Wertenbroch, Associate Professor of Marketing. Over 2,500 respondents across the three countries participated in the survey, collectively sponsored by Citibank, Citigroup Asset Management, Alliance Capital Management, and Permal.

According to Vineet Vohra, Regional Director of Investments Business for Citibank Consumer Group, "As the leader in financial education, we need to understand what drives and impacts investor decision today across Asia Pacific. We will use the insights from this study to promote wider recognition of the concepts of investor psychology. Our objective is to guide our investors towards better financial solutions."

Who's Taking Risks in Asia?

"The Emotion Behind Investing" shows that, compared to investors in Hong Kong and Taiwan, Singaporeans are the most risk averse when it comes to potential gains but at the same time most willing to take risks to mitigate losses. This suggests, for example, that Singaporeans are most inclined to sell performing investments too soon and hold on to their underperforming

investments for too long. Also, the report revealed that the Singaporean respondents are the least savvy in combining different financial decisions in a portfolio approach, focusing instead on gains and losses of individual opportunities, and hence forgoing sure benefits from the portfolio approach. The respondents in Hong Kong and Taiwan showed no significant difference in this respect.

To better understand the general risk behaviour of Asians in the three regions, the report also compares the risk attitudes of the respondents in the domains of social risk and investment risk. Examples of social risk included approaching one's boss for a raise, dressing in a revealing outfit and disagreeing with a parent on a major issue. The respondents in Taiwan showed the least inclination to take social risk, with no significant difference between respondents in Hong Kong and Singapore. On the other hand, Singaporeans showed the least appetite for investment risk, with no significant difference between respondents in Hong Kong and Taiwan.

Overconfidence – Too Much Of A Good Thing?

Across the three markets, investors display a higher degree of overconfidence in terms of estimating uncertain quantities compared to similar reported levels in the US. Among all the survey respondents, Singaporeans appear to exhibit the highest degree of overconfidence, followed by respondents in Hong Kong and then in Taiwan. This would suggest, for example, that investors in the three markets generally overestimate their ability to play the financial markets and would have a tendency to trade too much and too frequently, with such manifestation being the highest in Singapore.

Regret – Better Safe than Sorry?

The report also compared three types of regret often faced by investors: regret due to a missed investment opportunity that would have yielded a favourable outcome, regret due to an unfavourable outcome resulting from a self-made investment decision, and regret due to an unfavourable outcome resulting from an investment decision based on a financial advisor's recommendation.

The polled respondents across the three markets appear to agree that unsatisfactory investments or investments that didn't meet their expectations based on one's own decision would be a greater cause for regret rather than missed investment opportunities that would have yielded favourable results. While this is consistent with what has been reported for investors in the U.S., the difference between the two types of regret is much less in these three markets than in the U.S., implying that missed opportunities are mulled over much more in these three Asian markets than in the U.S. In fact, in Hong Kong, the regret from missed opportunities was almost the same as self-made investment decisions turned bad.

Also, for Asians, the highest regret type is associated with disappointing investment recommendations provided by financial advisors. This is in sharp contrast to what has been generally reported in the U.S. studies. In the U.S., it appears that investors when faced with unfavourable outcomes due to a financial advisor's recommendation take refuge in self-serving attribution, i.e., if a financial advisor's recommendation leads to a favourable outcome the investors attribute it to their own skills, whereas if the outcome is unfavourable they attribute it to bad advice. Hence the regret type associated with a financial advisor's recommendation which leads to an unfavourable outcome is lower than the regret type from a self-made investment decision with an unfavourable outcome, since in the latter case the investors have no one else to blame. This does not seem to be the case for the Asian investors in the study, suggesting that Asian investors generally view financial advisors differently than in the U.S. For example, Asian investors see financial advisors as sources of "hot financial tips", rather than long-term financial planning. The Hong Kong audience appears to be the most challenging market for financial advisors as investors in this market have higher expectations of their financial advisors.