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The Open University  
Business School

## The challenges of investor education: what influences investors decisions and behaviours?

The case for a focus on emotions and their regulation



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*Investigations into the neural systems underlying human behaviour demonstrate that the mechanisms of emotion and cognition are intertwined from early perception to reasoning. These findings suggest that the classic division between the study of emotion and cognition may be unrealistic and that an understanding of human cognition requires the consideration of emotion.*

Elizabeth Phelps, Annual Review of Psychology, 2006



## Research Base

- Own research on professional traders' decision-making since 1996.
- European Commission funded research on emotions and learning of private investors doing online trading.
  - Open University, UK; CIMNE, Spain; BTH, Sweden; FZI, Germany; Bristol University, UK; Erasmus University, Netherlands; Saxo Bank, Denmark.
- Collaboration with BBC on private citizens emotional relationships with money
- Wider research on emotions and decision-making

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3

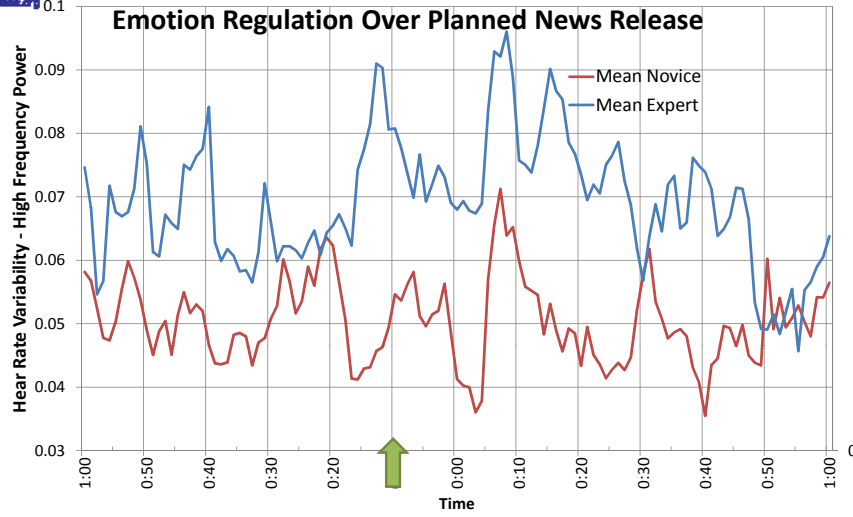


## Traders talk about emotions and emotion regulation



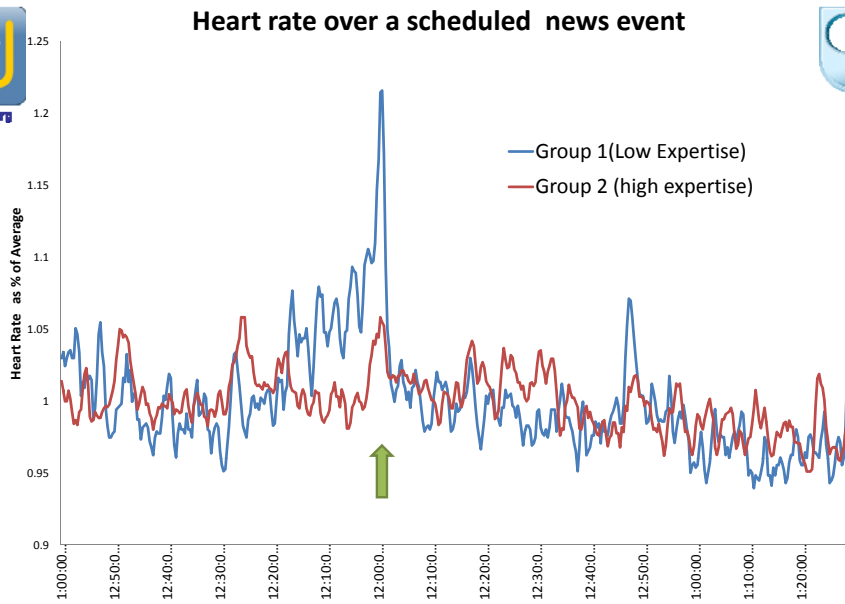
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4



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5



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6



## Some key findings

- Trading and investing produce intense emotions
- Emotions are both a source of bias and an important mechanism for effective decision-making
- Emotion regulation is an important aspect of trading expertise.
- Poor emotion regulation leads to unanticipated risk-taking and inability to execute planned investment strategies



## Private investors seem to experience very similar difficulties

- ❖ *"I thought having problems managing my emotions about trading was my dirty little secret. It is such a relief to find it is commonplace."*
- ❖ *"Everything you say about traders rings true, except for us it is more intense because it is our own money and it is more lonely because we have nobody who understands how we are feeling."*



## Common emotion issues when trading



- Forced trading – ‘I need to make back that loss’
- Path dependence – ‘Risk attitudes affected by prior gains and losses’
- Inability to execute planned investment strategy – e.g. moving stop losses
- Inability to cope with price volatility
- Hiding losses from self
- Favouring information about opportunities over risks



## What works for professional traders



- Writing things down
- Social support
- Emphasis on self-discipline and rigorous self-honesty
- Setting gains and losses in a wider context
- Critical reflection



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## Some thoughts about investor education

- Emotion driven biases and illusions do at least as much harm as lack of knowledge
- Without effective emotion regulation, more knowledge can make the problem worse
- Emotion regulation is not the same as emotion suppression
- Effective emotion regulation is affected by personality but can be learned

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11



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We need to place emotions  
and their regulation at the  
heart of investor education

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12