

# Behavioral Finance and Household Investment Decision

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# Outline

- What are the problems of household investment decision?
- What is risk profiling and why is it useful?
- How can the financial literacy can help investment decisions?
- Are investors behave the same in all countries?

# Problems with household

- Save less (Turkey and US!)
- Spend more (Can't stop young people)
- Diversify less
- Trade more
- Aging population lives longer than they expect!

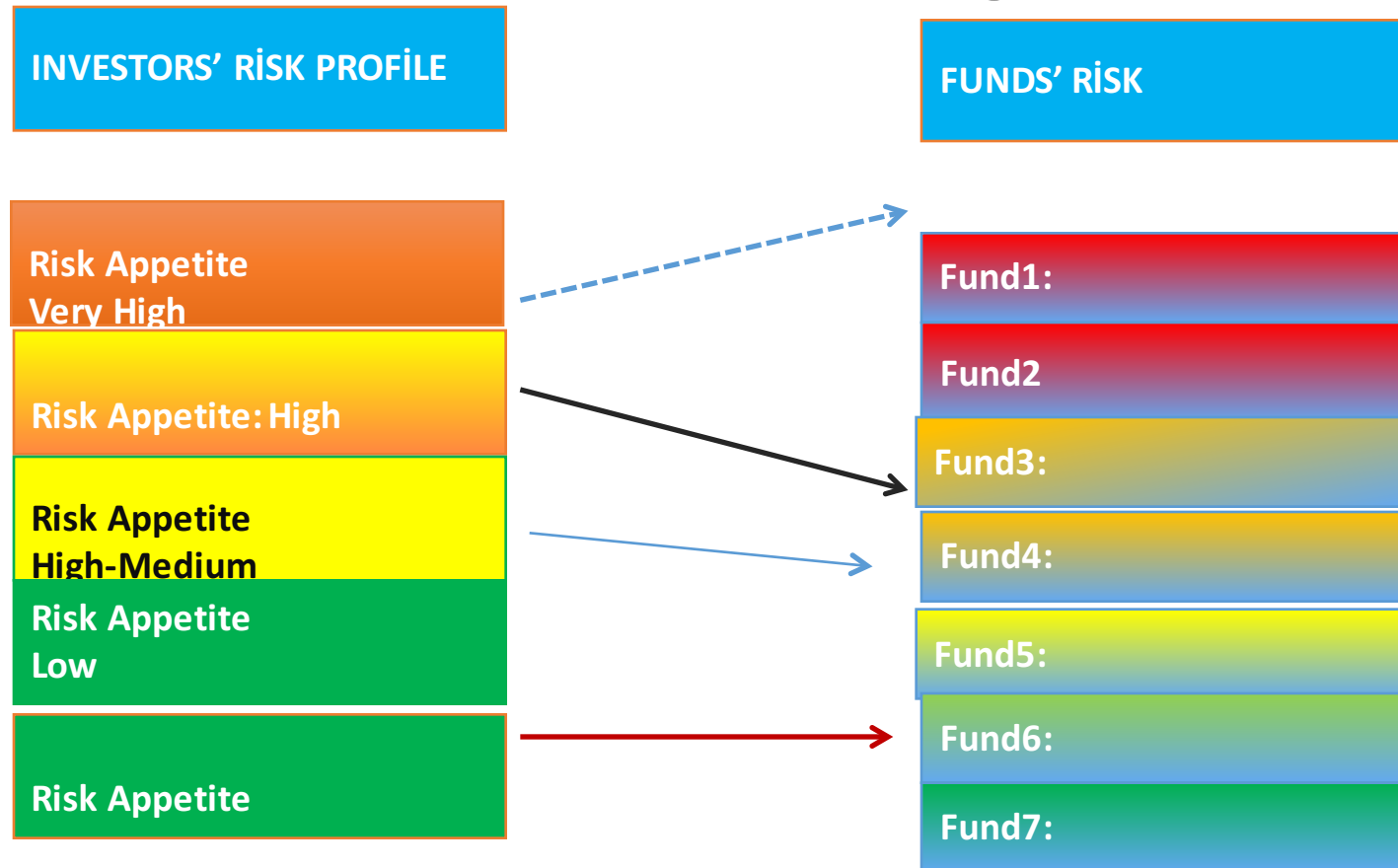
# Investment Biases and Aging

- One investment bias:
- Majority of older people underestimate their life expectancy
- Households age 75 and over with mortgage debt and avg debt owed:  
1989: 5.8%, \$35k
- 2010: 21.2%, \$82k

# Risk profiling and fund matching

- Without proper risk profiling individuals may take more risk than they can tolerate
  - ✓ (is DCD an investment alternative for retired people?)
- Many people may be underdiversifying their portfolio.
- Moral hazard between investment advisors (research is needed)

# Aim: Individual Risk Matching



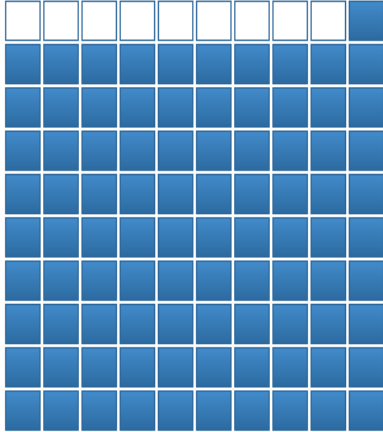
# Psychometric tests

- measures of risk.
  - **Self Reported Risk Attitude:** *How willing are you to take risks, in general?* (Scale 0-10)
  - **Hypothetical Lottery:** *100.000 TL. In 2 years, your investment will double with 50% probability and to half with 50% probability. How much to invest? ( 0, 20000, 40000, 60000, 80000 and 100000)*
  - **BRET**
  - Domain-Specific Risk-Taking (Blais & Weber, 2006)

# Attitudes towards Risk: BRET

## Deneme Oyunu

Deneme Oyunu



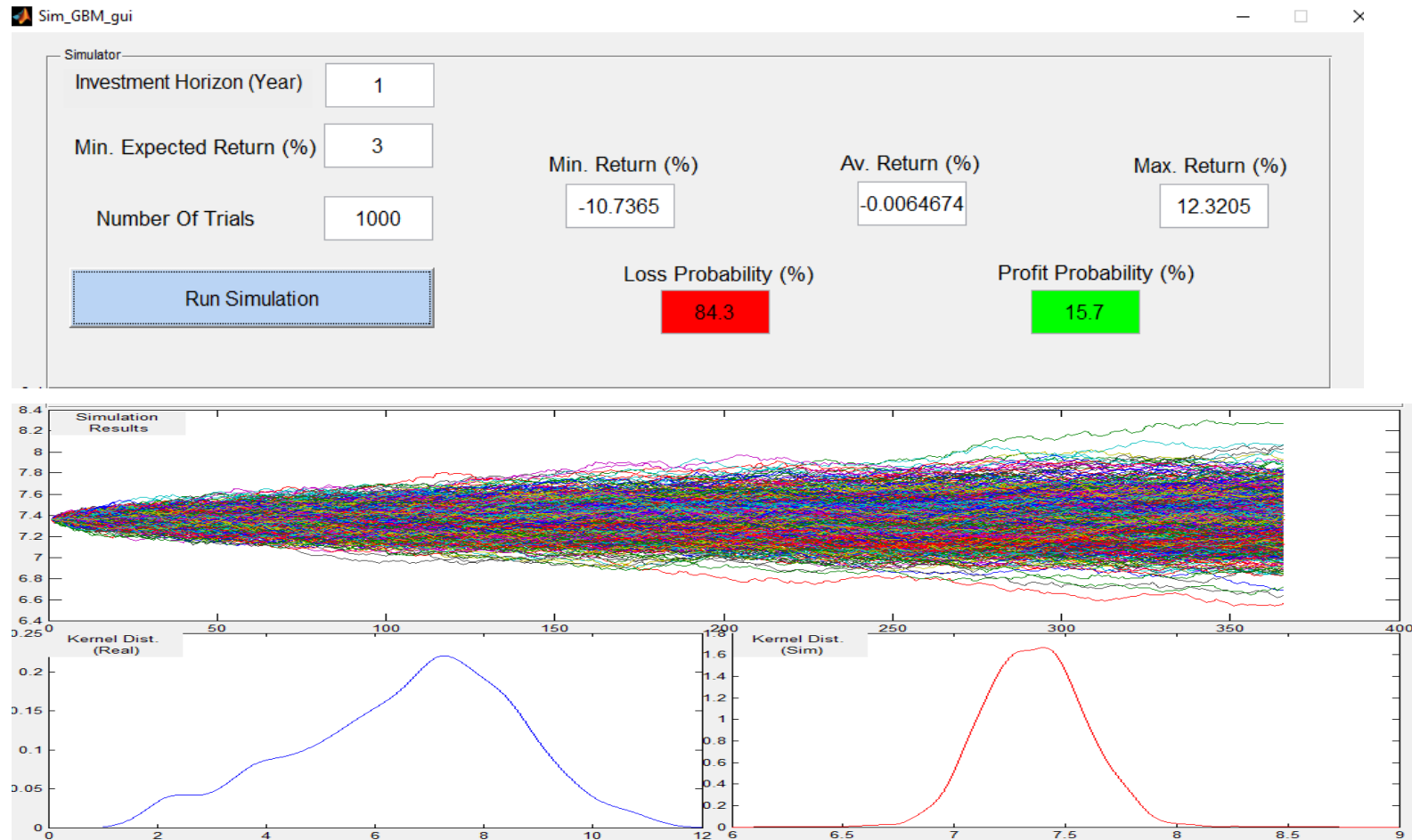
Para (TL)	90
Toplanan Kutu	9
Kalan Kutu	91

Bitir

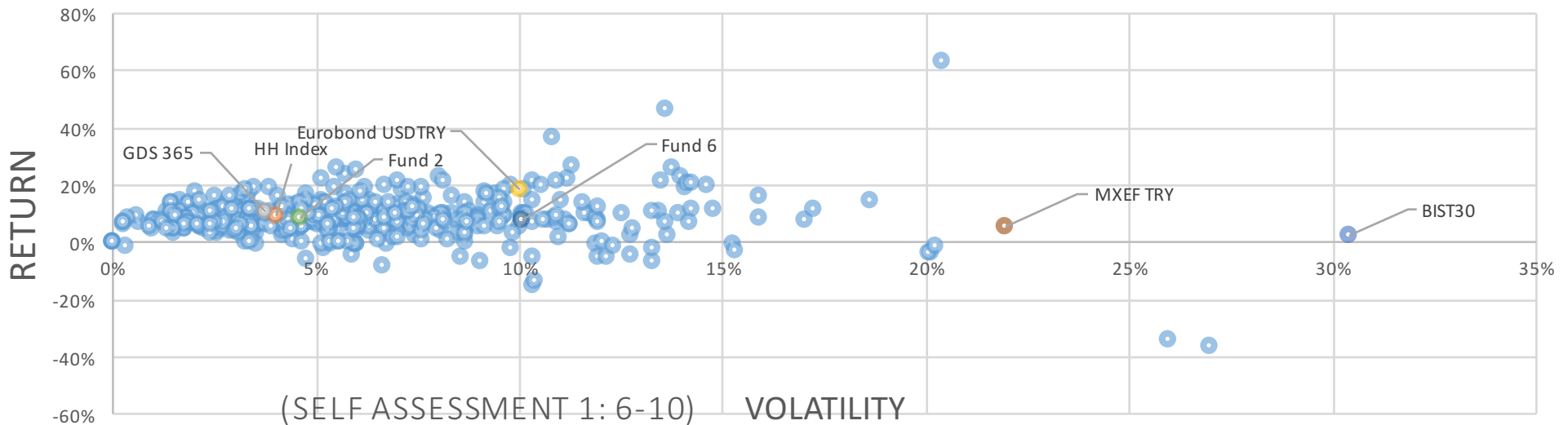
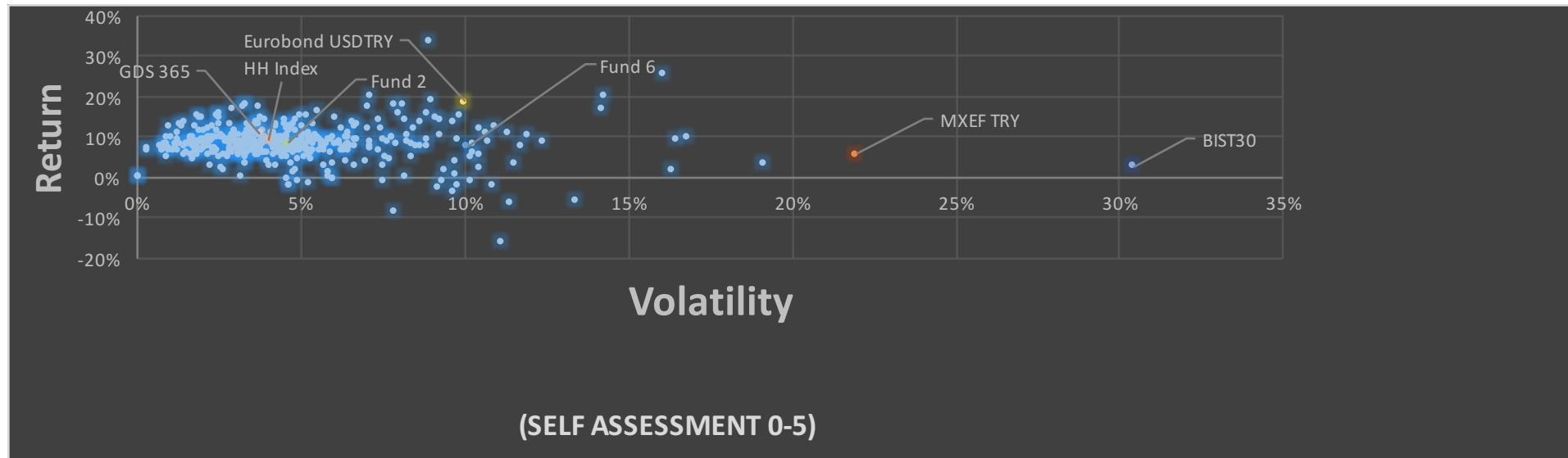
~ **BRET - BÜYÜK RİSK EĞİTİMİ GÖZLEME (CROSETTO & GILPIN (2015))**



# How to simulate future returns: framing, color, measures

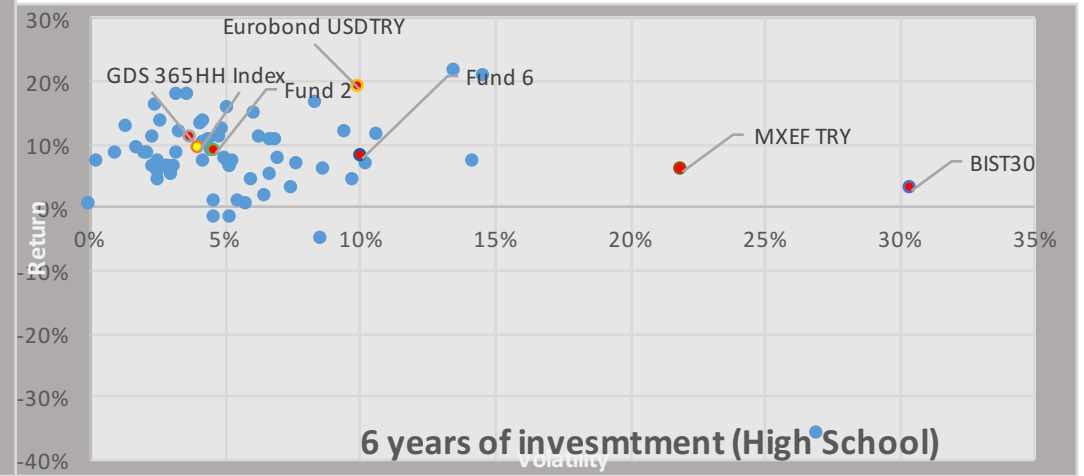
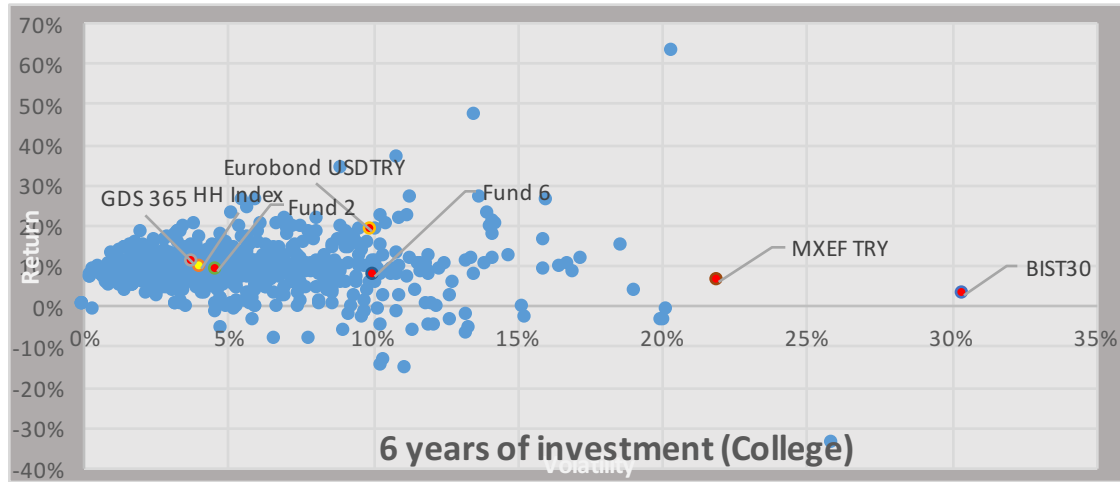


# Revealed risk and self assessment



Investment advisory: How to present future possible returns

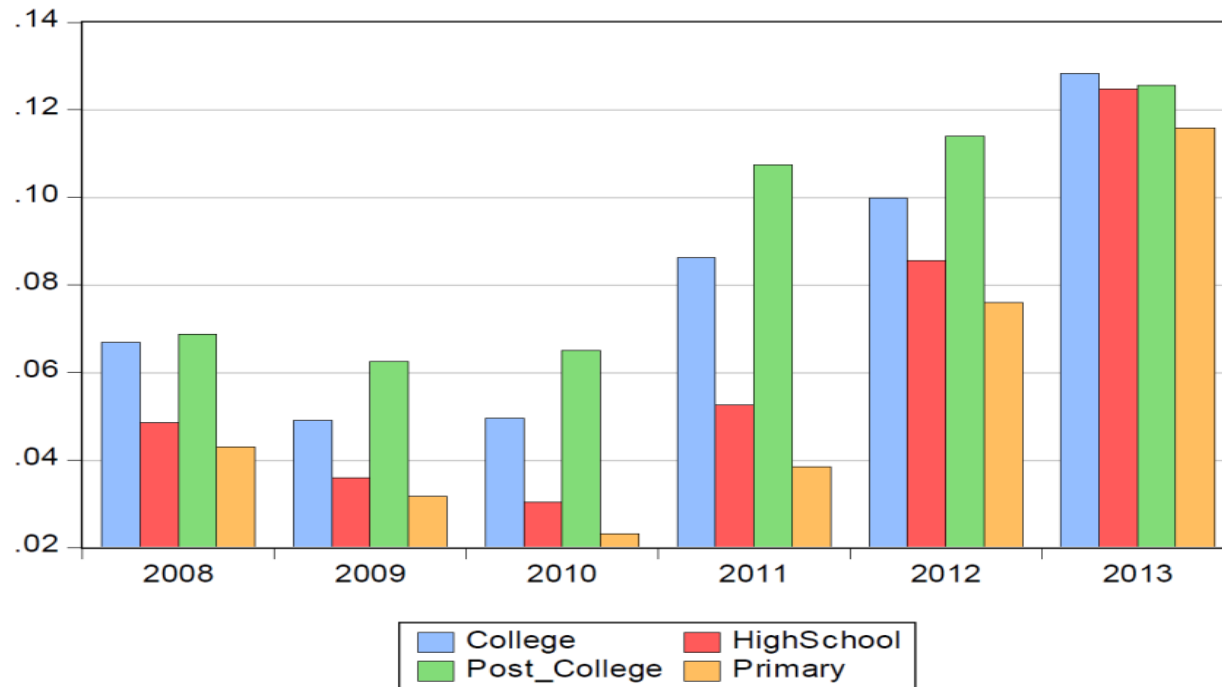
# Who is better investor?



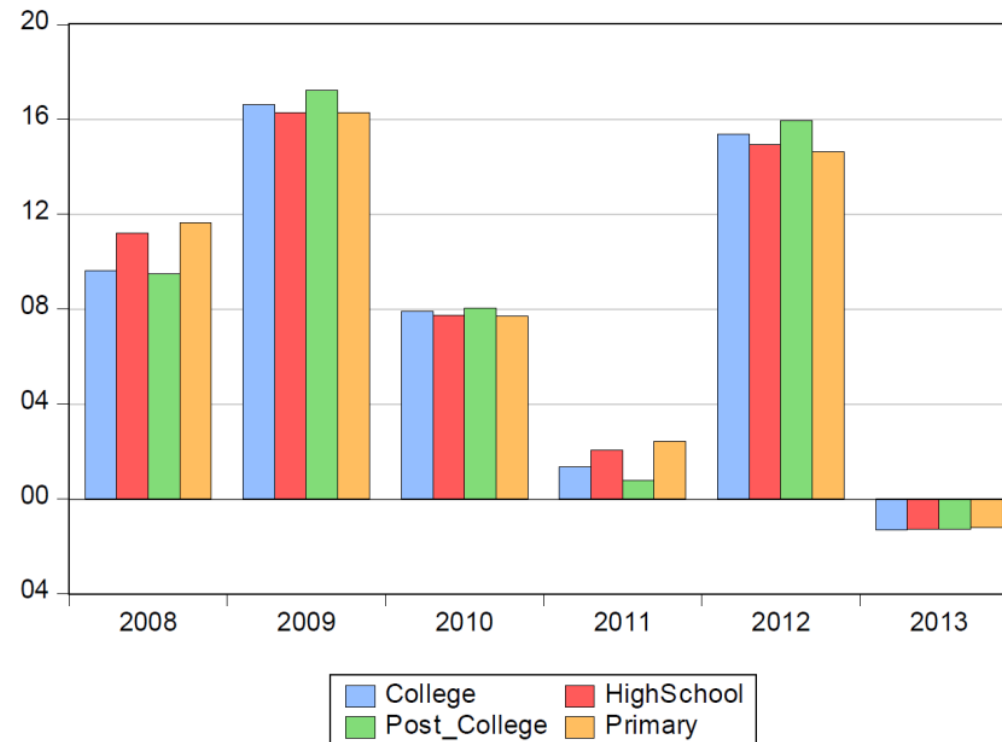
# Financial Education

- Important
- Changes for different investment universe
- Fin 101 or 901?

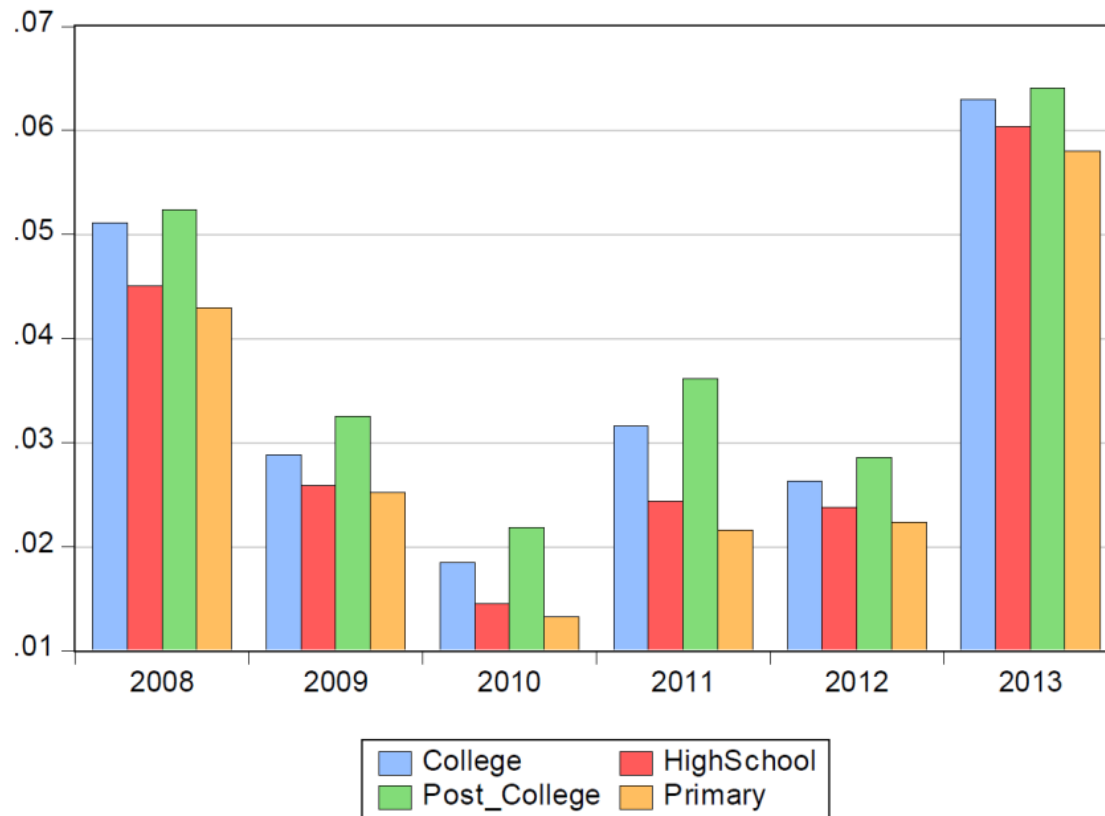
# Educational differences: equity weights



# Yearly returns: educational differences

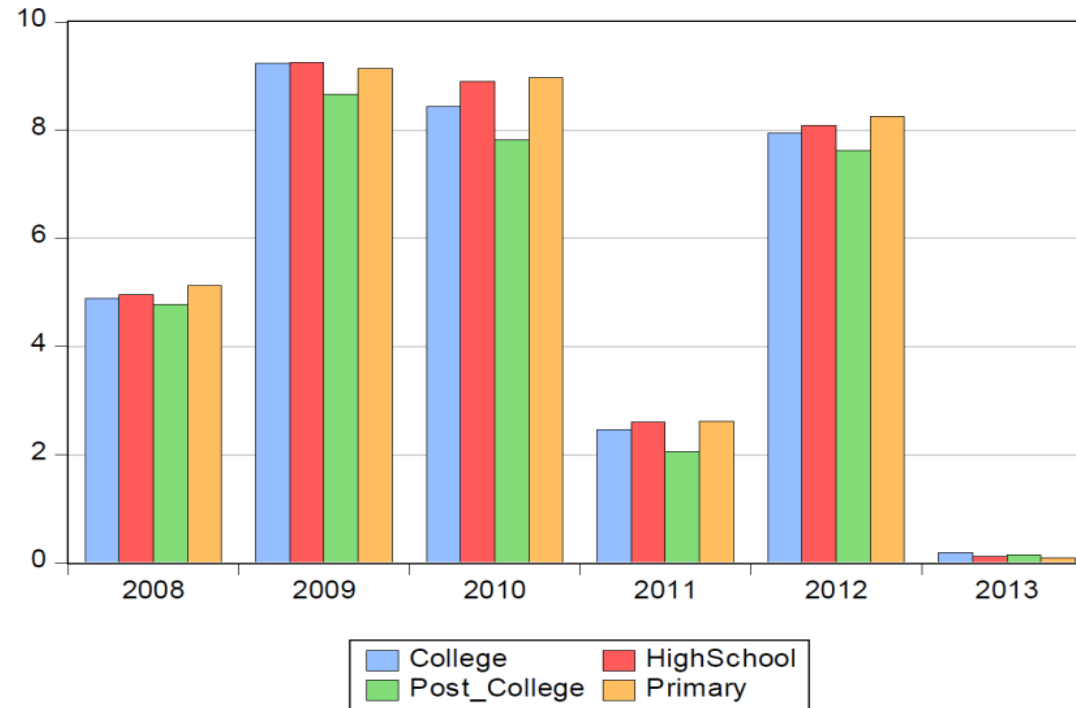


# Realized volatility of investors





# Sharpe ratio of investors (%)



# Conclusion

- Behavioral finance and financial education is extremely important
- Understanding the complexity of financial contracts and commissions is critical.
- Financial literacy and investment biases do have common and differing aspects among countries.