THE LONE WOLF OF WALL STREET

THE CONNECTION BETWEEN ISOLATED FINANCIAL DECISION-MAKING AND OVERCONFIDENCE

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The Gap

Our primary outcome of interest

o·ver·con·fi·dence

ˈˌōvərˈkänfəd(ə)ns/

the quality of being too confident; excessive confidence.
"you have to guard against overconfidence"

Our primary independent variable

Joint decision-making with someone in your household or with a financial professional

Our research questions

Is there a relationship between sharing investment decision-making and level of overconfidence?

Does that relationship differ by the person with whom you share?

The Studies

Study 1
Survey Data Analysis
- FINRA Investor Survey (n=2,000)

Study 2 (ongoing)
Experimental Pilot Study
- Participants are students from the School of Human Ecology at UW Madison

Study 3 (scheduled)
Field Experiment
- Participants will be financial advisors and their clients

Study 1 Conceptual Model

$$oc_i = \beta_0 + \beta_1 segment_i + \epsilon_i \quad (1)$$

$$oc_i = \beta_0 + \beta_1 segment_i + \beta_2 age_i + \epsilon_i \quad (2)$$

$$oc_i = \beta_0 + \beta_1 segment_i + \beta_2 age + \beta_3 gender_i + \epsilon_i \quad (3)$$

$$oc_i = \beta_0 + \beta_1 segment_i + \beta_2 age + \beta_3 gender_i + \beta_4 ethnicity_i + \epsilon_i \quad (4)$$

$$oc_i = \beta_0 + \beta_1 segment_i + \beta_2 age + \beta_3 gender_i + \beta_4 ethnicity_i + \beta_5 edu_i + \epsilon_i \quad (5)$$

$$oc_i = \beta_0 + \beta_1 segment_i + \beta_2 age + \beta_3 gender_i + \beta_4 ethnicity_i + \beta_5 edu_i + \beta_6 married_i + \epsilon_i \quad (6)$$

$$oc_i = \beta_0 + \beta_1 segment_i + \beta_2 age + \beta_3 gender_i + \beta_4 ethnicity_i + \beta_5 edu_i + \beta_6 married_i + \beta_7 inc_i + \epsilon_i \quad (7)$$

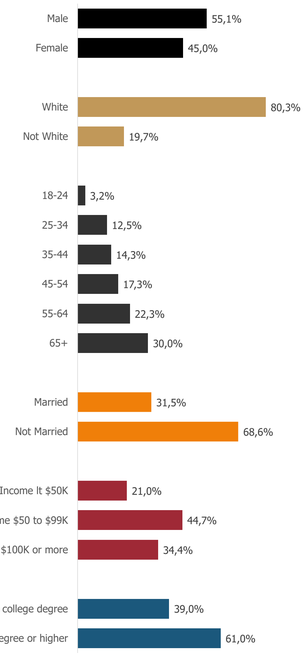
- Double-blind design
- Teamwork prime
- Diverse set of investors
- Multiple measures of overconfidence

Pilot and Field Experiments

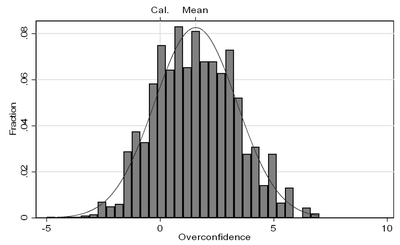
Study 2 (pilot in process)
Study 3 (planned field)

Study 1 Findings

Demographics



Overconfidence



QUANTILES

VARIABLE	n	Mean	S.D.	Min	25	Mdn	75	Max
Confidence	1,987	4.86	1.39	1.00	4.00	5.00	6.00	7.00
Score	1,973	3.30	1.53	0.00	2.10	3.50	4.20	7.00
Overconfidence	1,973	1.56	1.81	-5.00	0.20	1.50	2.90	7.00

Regression Results

VARIABLES	(1) Nested OLS	(2) Probit Marginal Eff
Decision-Making Segments		
With someone – no advisor	-0.518***	-0.0823***
	(0.144)	(0.0281)
Self but shared with advisor	-0.0606	-0.0717***
	(0.100)	(0.0191)
With someone and shared with advisor	-0.0674	-0.0519**
	(0.125)	(0.0244)
Self – all advisor	-0.404**	-0.0698**
	(0.159)	(0.0322)
With someone – all advisor	-0.440***	-0.0872**
	(0.163)	(0.0350)
Don't know/Don't want to say	-0.318	-0.0488
	(0.462)	(0.0625)
Age Groups		
25-34	-0.203	-0.0489
	(0.271)	(0.0381)
35-44	-0.552**	-0.127***
	(0.270)	(0.0385)
45-54	-0.992***	-0.190***
	(0.263)	(0.0384)
55-64	-1.264***	-0.220***
	(0.257)	(0.0382)
65+	-1.544***	-0.265***
	(0.256)	(0.0374)
Gender (female)	0.269***	0.0402**
	(0.0806)	(0.0157)
Ethnicity (non-white)	0.446***	0.0620***
	(0.104)	(0.0178)
Education (bachelor's or higher)	-0.642***	-0.0735***
	(0.0806)	(0.0155)
Married	0.314***	0.0521***
	(0.100)	(0.0187)
Household income	-0.133**	-0.0197*
	(0.0601)	(0.0115)
Constant	2.915***	
	(0.334)	
Observations	1,973	1,973
R-squared	0.151	
Pseudo R-squared		0.1383

Limitations

Causality – endogeneity problem

Single measure for key construct of overconfidence

Sample of investors with accounts beyond 401(k) or IRA

The Contribution

Primary Findings

Impact of shared decision-making on the most overconfident investors

With spouse/ someone in household: 8% ↓

With broker/ advisor: 7% ↓

Next Steps

Field experiment: Observed dyadic interaction and its influence on overconfidence

Industry data: Team-dependent/independent work units and their difference in overconfidence levels

Future Research

Financial decisions other than investments

Characteristics of married households that influence the effectiveness of shared decision-making

Characteristics of client-advisor relationships that influence effectiveness of shared decision-making