

Investment fears: How does the need for closure increase risk?

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Logic would dictate that consumers receiving new market information would jump at the chance to adjust their investments accordingly. In practice, however, many people associate change with loss of control. They crave the idea of permanence or closure to such an extent that they would rather freeze decisions in place even if, ironically, this puts them more at risk, according to a new study in the *Journal of Marketing Research*.

"The need for closure plays a central role in the way people make decisions," write authors David Disatnik and Yael Steinhart of Tel Aviv University. "They may freeze information into unchangeable opinion, even when new facts comes to light that should change that opinion."

Study participants were told that they were part of an experiment in investment decision making. They were measured for [risk aversion](#), and then given an investment scenario in which they were told that bonds were safer than stocks, and that the portfolio with the larger portion of bonds was considered safer. Some participants were subjected to an irritating noise while completing the tasks. Next, participants were asked to report the percentages of stocks and bonds they would choose for their [investment](#) portfolios. Half the participants were then told that breaking new information had become available, and all [participants](#) were given the option to remain with their previously chosen portfolio, or to make changes based on the new information.

The findings revealed that when told of a change in the market,

individuals with a high need for closure did not update their portfolios even though failing to do so meant that their portfolios were now more risky. An additional stage of the study found, however, that if individuals with a high need for closure received clear guidance about what to do, they were more likely to update their portfolios appropriately.

"The results may be relevant not only to investments but to consumption decisions, such as choosing a health or life insurance program or buying a car or a house. Advisors in some fields ask their clients to complete risk-aversion questionnaires before deciding which path to recommend. The current findings indicate that it may be beneficial to use a "need for closure" questionnaire as well and finally, to give consumers clear guidance on the value of remaining open to change," the authors conclude.

More information: David Disatnik and Yael Steinhart. "Need for Cognitive Closure, Risk Aversion, Uncertainty Changes, and their Effect on Investment Decisions." Forthcoming in the *Journal of Marketing Research*.

Provided by American Marketing Association

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