

# When it comes to investing, love at first sight doesn't always pay off

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Putting money into a specific investment just because it's the most familiar or stands out in some way is an all-too common mistake. A recent study by Vanderbilt business professors explains why we do it, and points to a solution for making better investing choices.

"Premature infatuation and commitment in individual investing decisions," coauthored by Steven Posavac, E. Bronson Ingram Professor in Marketing, and Nicolas Bollen, Frank K. Houston Professor in Finance, is published in the *Journal of Economic Psychology*. Mark Ratchford of Tulane University and David Sanbonmatsu of the University of Utah are co-authors.

"Everyday investors can often become overly attached to a particular stock or [mutual fund](#), sometimes to their financial detriment," said Posavac. "We wanted to understand how internal factors such as top-of-mind awareness or external cues such as media attention can cause investors to become prematurely infatuated with a particular investment."

The researchers conducted three experiments in which they primed participants to focus more on one investment choice than three others.

In the first, participants were given summaries of four comparable mutual funds, randomly assigned to rate one of them, and then asked to choose one of the funds to invest in. Participants were much more likely to invest in the fund they were assigned to rate than any of the other three—indicating that investors could be subtly led to favor a particular option simply because it was more salient than others.

A subsequent experiment showed that this bias is particularly likely to occur when investors focus on the most salient option, and fail to consider other, potentially better, alternatives. The last experiment showed that this phenomenon could often lead people to choose objectively worse investments.

"We found that the infatuation effect persisted clearly across all three experiments, even when the salient option was worse than the others," said Bollen. "Surprisingly, the effect was even a little bit stronger for

those who indicated that they understood how investments worked."

The researchers said that the key to overcoming this problem is to take a more comparative approach when choosing investments—for example by doing a side-by-side comparison of multiple investment options. Likewise, they said, this tendency can also be exploited to protect investors. Benefits managers can, for example, highlight lower-cost, more reliable investments, like index funds, so employees are less likely to default to riskier or more costly options.

"Becoming mentally fixated on a particular [investment](#) is a very common trap, even among experienced investors," said Posavac. "Taking a step back and thinking about multiple options before deciding can go a long way toward making better choices."

**More information:** Steven S. Posavac et al. Premature infatuation and commitment in individual investing decisions, *Journal of Economic Psychology* (2019). [DOI: 10.1016/j.joep.2019.04.006](https://doi.org/10.1016/j.joep.2019.04.006)

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