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Stereotypes influence whether people buy stocks, study shows

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Whether people invest in stocks depends on what they think about stockholders. This is what a team led by Luca Henkel, a member of the ECONtribute Cluster of Excellence: Markets & Public Policy at the University of Bonn, found out. The study has been published as an ECONtribute Discussion Paper.

The study found that 80% of respondents consider people who invest in stocks to be selfish and greedy "gamblers." "Which opinion people have of stockholders plays an important role in whether someone invests in stocks themselves," says Luca Henkel, who conducted the study with Christian Zimpelmann.

The researchers asked about 4,700 study participants from the Netherlands and the U.S. what they thought about people who are active or inactive on the stock market. On a scale of one to ten, participants could indicate how strongly they assigned character traits such as selfishness and greed to the respective group. The result: More than 80% of participants rated the group of stock owners as significantly more selfish and greedy than non-stock owners.

In a second step, the researchers use experiments to show that these views causally influence investment decisions: the more negatively participants view stockholders, the less they invested in stocks.

According to the researchers, only two reasons are more important for the decision whether to invest in the stock market than people's opinion about stockholders: their income or wealth and the belief whether shares yield positive returns.

Equity investments are part of people's identity

"The negative picture contributes to the low participation in the stock market," says Luca Henkel. In Germany, less than 30% of people invest in shares.

The study reveals that respondents have a stereotype of stockholders in their minds, which in reality only applies to a small group. People overestimate character traits such as egoism and greed in relation to the total group of all shareholders. This may lead to the decision not to invest in stocks to become an important part of people's identity. For instance, 40% said they were proud not to own stock.

"We should talk about who is investing in the stock market in the first place," says Luca Henkel. "In reality, this is not a homogenous group, but consists of individuals having a wide variety of characteristics."

Education, for example in the form of school lessons on finance or public information campaigns, could encourage more people to engage with the stock market.

More information: Proud to Not Own Stocks: How Identity Shapes Financial Decisions. ECONtribute Discussion Paper; www.econtribute.de/RePEc/ajk/a … tribute_206_2022.pdf

Provided by University of Bonn