

Practitioner Roundups

sfi:knowledge
www.sfi.ch/knowledge

February 2016 | No 2

Is There “Swissness” in Investment Behavior?

Knowledge and emotionality determine investment behavior. Are Swiss investors better prepared to avoid investment mistakes than their closest neighbors abroad?

In Switzerland the term “Swissness” is used to indicate how consumer products are distinguishable from similar products from other countries. While Swissness is established as a successful brand for products, little is known about the question of whether Swissness exists in other areas.

The authors analyze whether there is Swissness in the behavior surrounding investment decisions. Since such decisions are determined by financial literacy and investment emotionality, the authors analyze whether the Swiss have different financial knowledge and a different ability to deal with the emotions that bring about investment mistakes. The study measures financial knowledge with questions that address the long-term rewards of different asset classes, the size of well-diversified portfolios, and the relative importance of different performance drivers. The occurrence of emotionally motivated mistakes is addressed with questions on risk taking and strategy following gains and losses.

“The Swiss decide less emotionally and most have better financial knowledge than their neighbors abroad.”

The study is based on a large survey completed by more than 2,000 participants spanning the three linguistic regions of Switzerland and the closest neighboring countries (Germany, France, and Italy). The authors find that Swiss make decisions differently from non-Swiss. For most questions, even Swiss who speak different languages to one another display greater similarities to one another than they do to their “neighbors” abroad who speak the same language. Moreover, the authors find that Swiss in all language regions are more likely to avoid emotionally motivated investment mistakes, even if only the German- and the French-speaking regions of Switzerland can boast higher levels of financial knowledge than are evident elsewhere. The authors conclude that there is Swissness, in behavior regarding investment decisions and in emotional investment competence, that cannot be explained by proxies for industry differences or by differences in the demographic and socioeconomic characteristics of the regional samples.

About the Authors



Thorsten Hens

Thorsten Hens is SFI Professor of Financial Economics at the University of Zurich and Adjunct Professor of Finance at the Norwegian School of Economics in Bergen. He studied in Bonn and Paris and previously held professorships at Stanford and Bielefeld. His main research area is behavioral finance.

Kremena Bachmann

Senior Research Associate, University of Zurich.

The full paper can be found at <http://bit.ly/1PDcQLb>.

Key Words

Swissness
Financial literacy
Behavioral finance
Investment competence

Although the language an individual speaks might be more relevant to that individual's self than their country of residence, the results suggest that in countries with multiple identities there might be some traits on the national level that exert an influence on emotional investment competence.

“Investment experience improves financial knowledge but not the ability to deal with emotions after gains and losses.”

Beyond the regional differences in the investment competence, the authors find that individuals who believe they have a greater investment experience also have better financial knowledge. This observation supports the current practice of using clients' investment experience levels in judgments regarding the suitability of investment products. However, individuals with greater investment experience are also more likely to decide emotionally once they have made an investment. Investors with greater investment experience may have a better understanding of the financial risks involved in their investments, but the study results reveal that they are even less prepared to deal with the related emotional risks than are other investors. Similarly, unhelpful is information on financial wealth or on higher education as a proxy for competence. While less wealthy or less educated clients tend to have lower levels of financial knowledge than wealthy clients who have undergone higher education, there are no differences between the emotional competence of these two groups. It seems that the current education system helps to improve financial knowledge but it does not necessarily improve individuals' ability to deal with emotions when making investment decisions. Such ability improves with age, income, and professional responsibility. Income is also a much better proxy for financial knowledge than is financial wealth.

“The Swissness we find in investment behavior suggests that Swiss investors may enjoy greater freedom with regards to their investment decisions and thus need less investor protection.”

These results have important policy implications, for example for the design of laws that aim to protect investors, as does FIDLEG. The results show that Swiss investors may enjoy greater freedom with regards to their decisions and thus need less protection than investors in neighboring European countries. In all countries, however, educational measures put in place to prepare investors to act responsibly should consider the negative impact of emotions on the investment decision making process, and should not confine themselves to the dissemination of financial knowledge alone.

Practitioner Roundups

SFI Practitioner Roundups aim to present the latest industry-oriented research findings and ideas from SFI faculty in a concise, focused manner. Any views expressed in this document are those of the authors of the paper cited, and those authors alone are responsible for the document's content.

SFI Knowledge Center

The SFI Knowledge Center promotes and supports dialogue, information flow, and collaboration between academia and the financial services industry.

Contact

SFI Knowledge Center
knowledge@sfi.ch
www.sfi.ch/knowledge