(No) Panic on the Titanic?
Responses of German private investors to the financial crisis

Talk at the AOW-Congress in Wien, 9.-11. September 2009

Katharina Sachse[1], Julia M. Belting[2] & Helmut Jungermann[1]

[1] Institut für Psychologie und Arbeitswissenschaft, TU Berlin

[2] Forschungsgruppe Organisation, Arbeit, Technologie, ETH Zürich

Keywords: Private Investors, Financial Psychology, Financial Markets Crisis, Investment Risk, Germany

Schlüsselbegriffe: Private Anleger, Finanzpsychologie, Finanzkrise, Anlagerisiko, Deutschland

Introduction:

The crisis of the financial markets in autumn of 2008 was an incident that almost nobody could ignore. Many large US investment banks went bankrupt or were put under governmental control. Equity prices worldwide declined rapidly in a dramatic manner. All these events were accompanied by extensive media reports.

Though most German private investors were not affected directly by financial loss (only a minority had invested in assets of bankrupt financial institutions in the U.S. or Iceland), many of them were extremely concerned. Investment consultants reported enraged or crying clients. Some customers wanted to withdraw their entire savings accounts. They thought it would be more secure at home beneath their mattress. Others just came to the bank to confirm that their capital still existed. Interestingly, those responses followed the statement made by the German chancellor, Angela Merkel, who declared that the savings of the German public were secure. Maybe, those responses only occurred *because* of her statement.

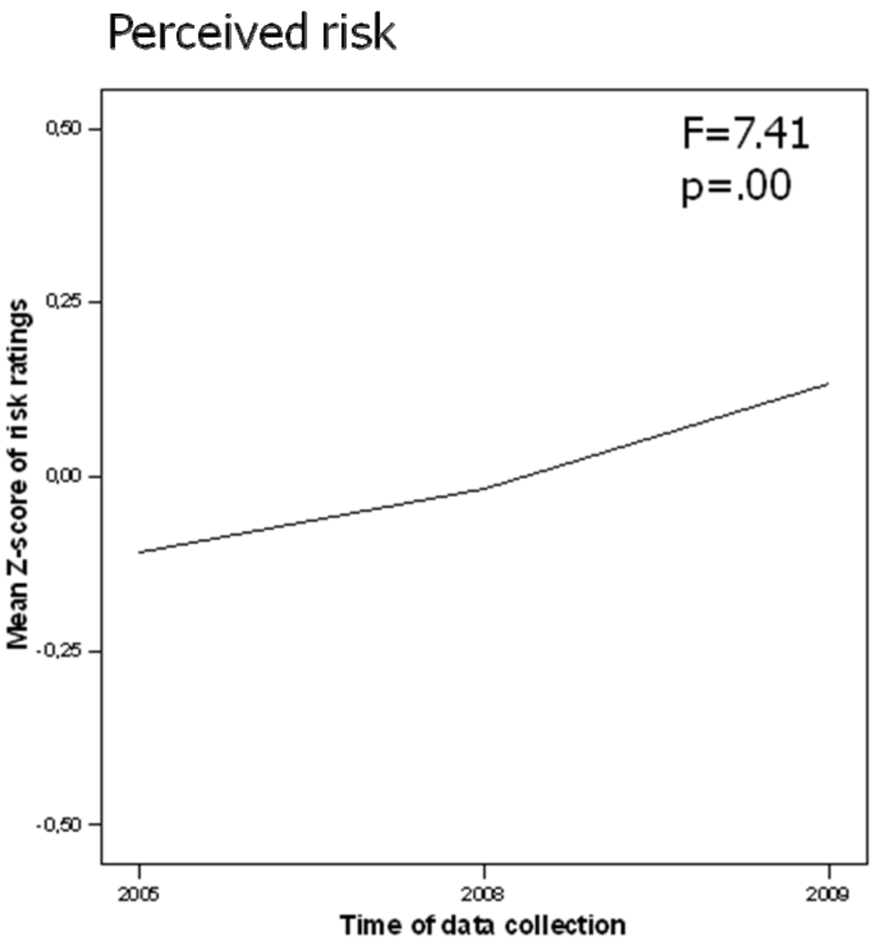
The research of Siegrist and Cvetkovich (2001) concluded that sometimes risk is perceived from statements that are meant to deny the existence of risk. Another finding is that risk perception of lay people is not determined by only facts. Our research shows that qualitative aspects such as worry and novelty are as important as quantitative risk aspects such as volatility and probability of loss (Sachse, Jungermann & Belting, submitted). We were interested in if and how perceived risk and its various aspects potentially changed during the financial market crisis. Further, we assessed the intention to invest, and if and how it changed concurrently. Additionally, we were attentive to altered investment behaviour as consequence of the financial market crisis.

Method:

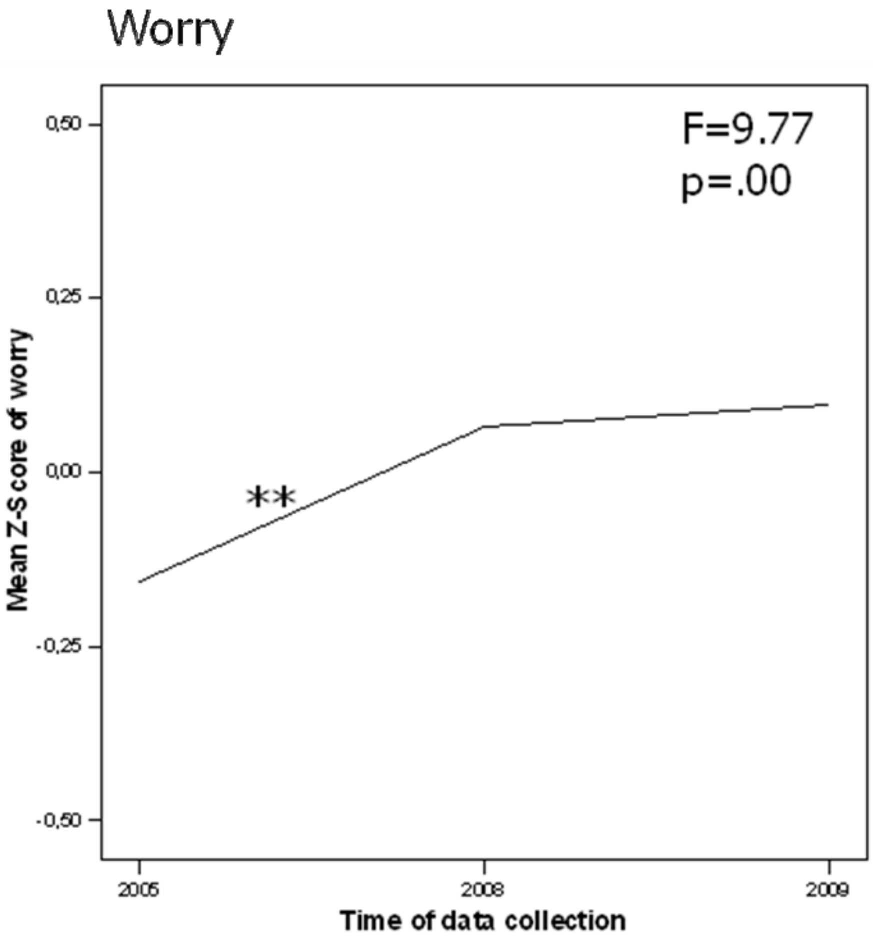
An internet-based survey was conducted at three points in time: autumn 2005 (N=171), autumn 2008 (N=174; the survey started one month after the bankruptcy of Lehman Brothers) and summer 2009 (N=170). Participants were asked to rate the risk of 8 different types of investment, for example *bank savings books, shares* and *funds*. They did not only have to rate the overall risk, but also several aspects that proved to be linked with risk perception in previous studies. Such aspects were *volatility* (that is the variance of outcomes), *probability* and *magnitude of potential losses*, and *worry*, among others. Further, participants were asked their *willingness to invest* in the given investment form.

Results:

We cannot report all the results here, so we concentrate on the most interesting ones.
Here you can see how risk ratings varied over the three points in time:

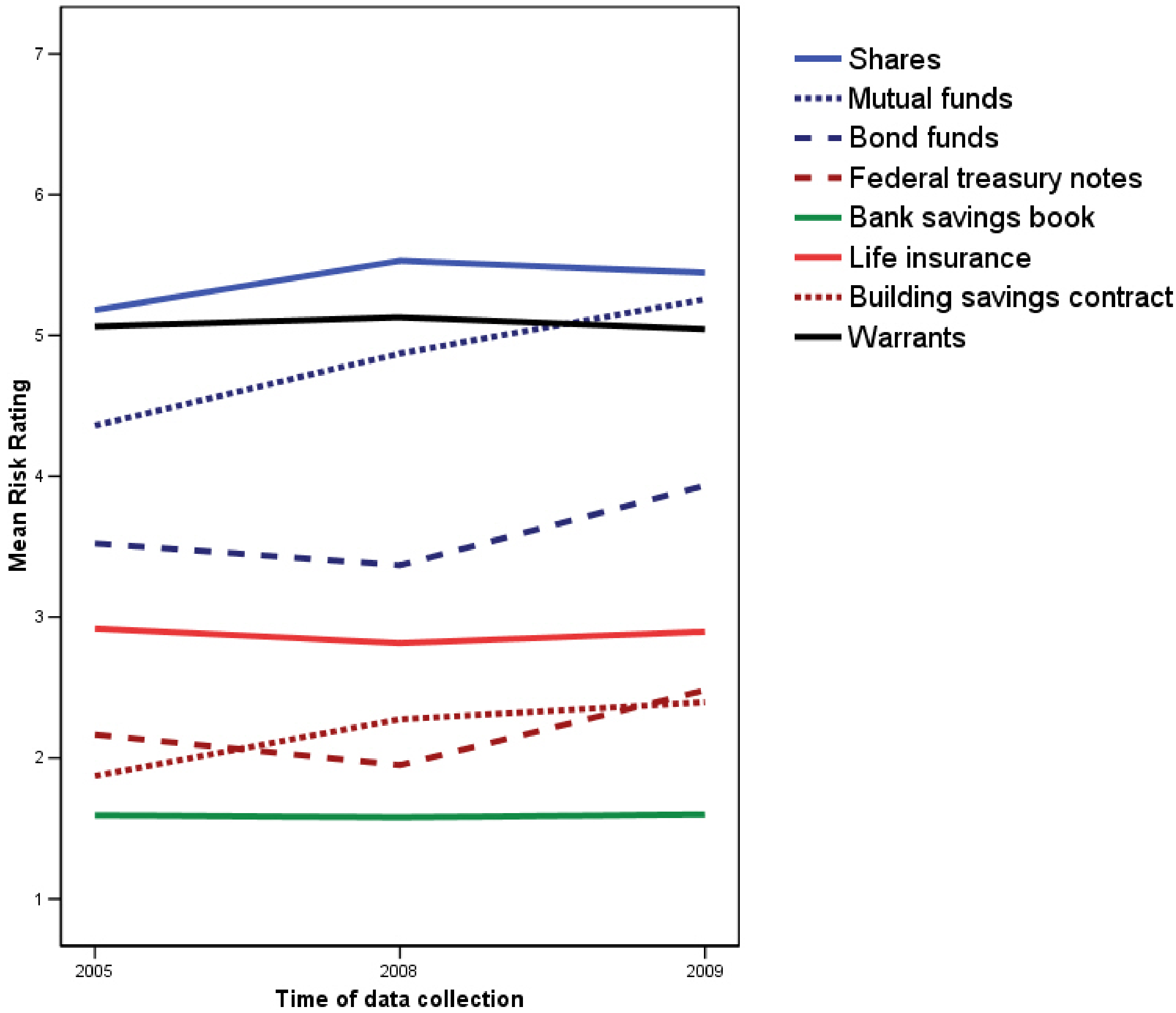


There is a slight but significant increase of overall perceived financial risk over time. To our surprise, the difference between the mean risk ratings is larger when we compare the data collected at the onset of the financial crisis 2008 to the data of some months later, than when we compare the data of the onset to the data collected three years before the financial crisis. Those results suggest no signs of a panic of private investors. Instead they seem to indicate an increased awareness of potential risks related to the investment of money, perhaps due to the ongoing media reports concerning financial issues.



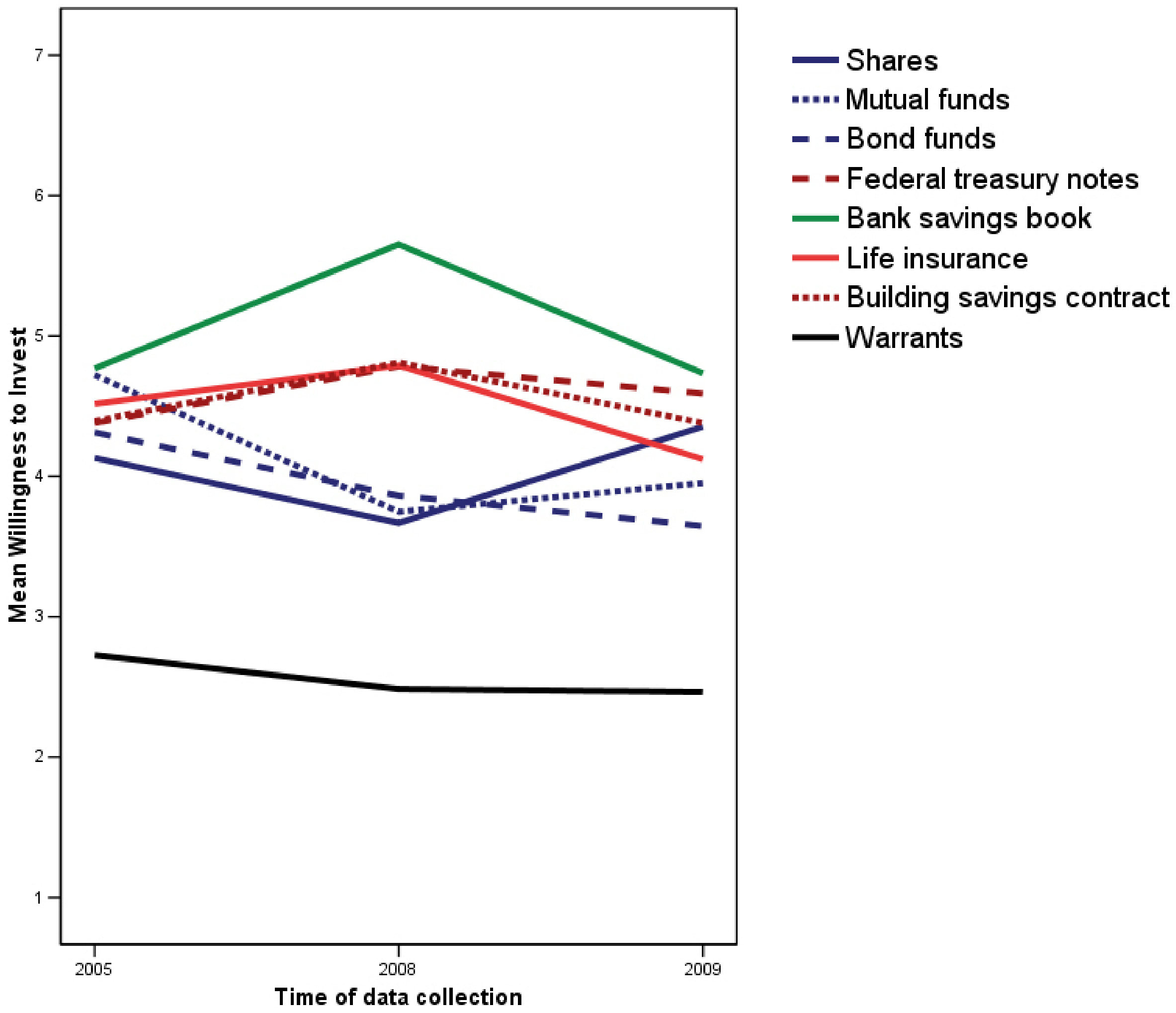
Closely connected to perceived risk is *worry*, as previous studies have shown. Moreover, *worry* proved to be the most important predictor of the willingness to invest. Worrisome thoughts are born of negative anticipations of uncertain future events, and are linked with negative emotions. The analysis of the worry ratings reveals an interesting difference in comparison to the risk ratings. Worry increases the most at the beginning of the financial crisis and remains stable at this level through the following 9 months. We do not want to interpret this finding as an indicator of panic. But the results show that worry seems to be more sensitive to rapid situational changes than perceived risk is.

More interesting than a look at the aggregated risk ratings is the analysis of differential risk ratings for each investigated type of investment. Effects are not dramatic, but we can see that private investors differentiate between them. There is no change in perceived risk of *stocks, warrants, bank savings books*, and *life insurances*. The perceived financial risk of *mutual stock funds* and *building savings contracts* increased significantly and steadily. Also the results for *bond funds* and *federal treasury notes* are significant, but here the shapes look different. Immediately after the onset of the financial crisis, there is no change in perceived risk, but it increased significantly during the crisis. Both investment forms have fixed-interest rates. At the beginning of the crisis, interest rates did not change, while some months later they decreased substantially. To date, no one knows if the bottom of the interest level has been reached and if and when interest-rates will rise again, so the future changes of interest-rates seem to be unpredictable. Predictability is one of the relevant aspects in financial risk perception. A closer look at the data shows that for bond funds and federal treasury notes the increase in perceived risk is linked to a decline in perceived predictability. So, this may be the explanation for the delayed effects in perceived risk.



What about investment behaviour? Participants were asked to rate their future willingness to invest for the given types of investment. In 2005, there were no important differences, only warrants were less popular. At the beginning of the financial crisis in autumn 2008, conservative, well-known investment forms, especially *bank savings books*, became more attractive while the attraction of speculative or complex investment forms, like *shares* and *mutual stock funds*, fell. What is interesting now, is if the willingness to invest changed further during the financial crisis.

To our surprise, in summer 2009 private investors behaved just like in 2005. For almost all of the investigated forms of investment, the willingness to invest in 2009 equaled the willingness to invest in 2005. Only for *mutual stock funds* and *bond funds* it is substantially lower, at a level of 10%. So, the effect of the international financial crisis on the preferences of German private investors seems to be non-durable.



Additionally, in summer 2009 participants were asked to directly indicate if and how they changed their investment behaviour because of the financial market crisis. Only 131 of the 170 participants answered those questions. First, they were asked if they changed the way they made decisions about investments. About 30% answered that question with “yes.” Those participants were asked to state what they had changed (some response options were presented). The most common answer was *“I read up more on investment”* (57.5%). 20% changed their finance institute, 10% changed their investment consultant. 17.5% answered that they consulted investment advisors less, while 7.5% consulted them more than they did before the crisis. Then, participants were asked if they changed their investment behaviour, which was affirmed by 39% of the participants. Most of them invest more conservatively now (78%), while 8% admit that they take higher risks. 27.5% diversify their portfolios more, but 8% concentrate on fewer products than previously.

Conclusions

Results show that there is no general panic in German investors. Perceived financial risk increased just slightly, with variations among investment forms. Only about one third reported a change in their investment behaviour as a consequence of the financial market crisis. This supports our analysis of the variation in the willingness to invest, where also only a few durable shifts could be obtained. For those with changed behaviour, findings indicate a prevalent loss of trust in financial advisors. This is in line with other findings of our research not included in this analysis. There, the majority admits that they lost trust in financial experts. So, the effects of the financial market crisis seem to be minor for concrete investments, but substantial for general attitudes towards financial matters. Therefore, we expect German individual investors to be more discerning and attentive in their future investment decisions.

Contact: katharina.sachse [at] tu-berlin.de
http://www.kke.tu-berlin.de/menue/ueber_uns/team/katharina_sachse/