

# The economic recession and investor psychology

More research into investor psychology

The current economic recession is anxiety provoking for most of us. Although, anxiety serves as a warning signal in the face of danger it could also have a negative impact on our judgement and decisions.

There is ample research available on the role played by anxiety within the traditional fields of psychology. However, the same can not be said about the role played by anxiety within investor psychology. Contrary to popular belief investment decisions are not purely based on objective measures. Emotions are intertwined with investors' decisions and behaviour. Emotions could assist investors in making sound decisions or it can have negative consequences.

Research on the topic of investor anxiety is now more relevant than ever before. The current economic recession creates a heightened awareness of prospective losses and this brings about anxiety. Research done by Kahneman (1998) has found that people are more distressed about prospective losses than they are happy about equal gains. People will rather take more risks in order to avoid losses than to realise gains. In the face of distress, caused by prospective losses, investors are likely to overreact to information and make irrational decisions.

More research into investor psychology will assist investors in recognising and understanding the role played by their emotions when making investment decisions.

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