

# *The Impact of Status Quo Bias on Investment Decisions*

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**Abstract:** Different environments can create different biases in the current situation, such as people from different countries having different stereotypes about the same thing, which can also affect investment. This paper takes stocks investment as an example to explore the impact of current situation bias on investment decisions. This paper's goal is to demonstrate through different experiments how status quo bias arises from both subjective and objective factors, and how it affects investment. This paper analyzes two experiments to demonstrate how investment decisions are specifically influenced. The first is to use the manifestation of stocks themselves to generate status quo bias, and the second is caused by people's objective factors. The second is to address the differences between investments by analyzing the problems faced by different individuals. This paper also provides a solution to the problem, starting from the stock itself, by reducing the learning cost and difficulty of investing in stocks to help people better invest.

**Keywords:** investment decision, status quo bias, gender difference

## 1. Introduction

With the changes of the times, the economy has become developed, which has led to the development of the stock market. More and more people are understanding and investing in the stock market through various channels. Among them are some professional investors with knowledge base and full experience, or some non-professional investors who search information by themselves. However, as the population base increases, so does the number of novice investors who invest blindly following the ideas of others.

Status quo will have an impact on the choices of the health plan. A study by Harvard's health members suggests that most people choose health plans [1]. Most people will always adhere to the plan they choose, even if this persistence is inconsistent with their assumed preferences. Only three percent switch plans each year, even though switching would improve their benefits. Nevertheless, people seldom analyze the investment itself and the characteristics of investors, such as the age and gender of investors, and the long-term and short-term fluctuations of the stock market on the market risk. For example, the above-mentioned faculty members of Harvard University, even if they are well-educated, some factors such as age will keep their previous choices. There is a similar situation with recruitment planning, where most people only know that recruitment planning will ensure their future life. They only choose this project but do not know how it will ensure their life.

Investment decision-making is of importance in daily life, and status quo bias may also have an effect [1,2]. Some studies show how current situation bias affects people's psychology and inferred

its impact on investment decisions [3,4]. The impact of objective reasons on status bias, such as gender [5,6], may affect the investment decisions [7]. The long-term or short-term nature of investment can also have an impact on investment [8,9].

This paper mainly analyses two experiments on stock performance and gender differences to capture status quo bias. Over a long period of time, investment has become more and more important, but many investors still hold too subjective judgments on investment due to lack of professional knowledge and experience. This article connects status quo bias and investment decision-making and uses specific cases to show the “inescapable misunderstanding” that investors passively possess. This paper suggests that investors could focus on the investment itself rather than being influenced by the overwhelmed information and following the trend. For gender, men and women complement each other’s weaknesses and absorb their respective strengths. Men need to stay calm, while women need the courage to take risks.

## 2. Analysis of Status Quo Bias in Investment Decision

### 2.1. Stock Performance

The presentation of the performance of a stock may affect investment decisions, typically the way of presenting price changes or returns. For example, the price change could be presented as an increase of \$0.1 in absolute terms or 10% as a rate of change. The status quo of the investment market is blind investment, and the number of people who do not know how to invest will gradually increase. A study on status quo bias in 2005 showed that the performance of stocks can affect investors’ decisions [2]. In this experiment, participants with an average age of 21 were randomly assigned to either the “percentage” group (86 students) Fund A or the “difference” group (84 students) Fund B. The difference between the two groups is only in the form of stock returns. For example, if a stock is sold for \$0.1 more than it is bought, then its rate of return is 10%.

Participants were asked which stock they were more satisfied with, and it was shown that the stock, expressed as a percentage, was more satisfied. The benefits of the two sets of data are the same, but why do more people choose the “percentage” group? The answer is that two stocks look different and feel differently. For example, one might think that a 10% return looks like more than \$0.10 because the number 10 looks bigger. The way the stock is presented allows investors to have a status quo bias on the numbers and ignore the value of the stock itself. They made a choice in their hearts the moment they saw the numbers, and no matter how the two stocks changed afterwards, investors would still choose the stock they believed in at the beginning [3,4]. This also reflects stereotypes. Even if two stocks are the same, they will choose the one they like because of their inner bias.

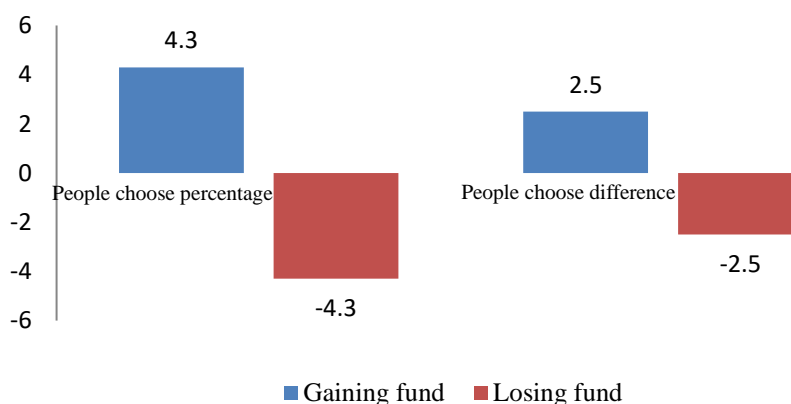


Figure 1: Participants of satisfaction score with Fund A and Fund B.

As can be seen from Figure 1 (data source comes from the study just mentioned [3]), there are more people who are more satisfied with the percentage. The population in the experiment was young people with higher education, but they still had the problem of status quo bias. This shows that there is no absolute relationship between status quo bias and education level or age, and status quo bias can occur even for college students. This also shows that the main reason for the deviation from the status quo is psychological problems. People's pursuit of large numbers makes them blindly pursue the sense of security brought by large numbers, which is affected by the information format.

With the development of the fast pace of life, people often focus on the form and the superficial phenomenon and ignore the core information. Many people just aim to complete the task instead of thinking about how to do it well. This aspect shows that many people are impetuous and lack of professional knowledge. It also shows that the deviation of the status quo is difficult to fundamentally solve, because changing a person's inner thoughts is often the most difficult. To solve this problem, first, it allows investors to learn more professional knowledge, and relevant departments publish stock information on the Internet to make this knowledge public and transparent. However, the cost of learning is high, and it is difficult to implement. Second, more experiments can be done to determine the expression of the public's preference. For example, if there are more people who choose the percentage format, the stocks will be displayed in the percentage format.

## 2.2. Gender Differences

Gender differences could influence investment choices. The determinants of some investment decisions were found to differ by gender, but gender did not appear to be a critical determinant of investment choice [5]. Women are more afraid of the consequences of taking risks than men, so they tend to choose conservative plans. Women are more likely to hold risky assets if they expect to inherit an inheritance, have a job, and have a high net worth; whereas men invest in risky assets if they are adventurous, divorced, older and college educated [6]. If women have jobs and a high level of education, they are more likely to hold risky assets.

The influence of patriarchal society on women also causes status quo bias. In this part of the world, women's desire to achieve a work-life balance is often frustrated by entrenched patriarchal norms. Male domination and excessive subordination of women, family, and gender-based division of labor, and higher patriarchal tendencies among men are integral parts of a patriarchal society [6]. The traditional ideology of prioritizing men over women can also affect women's work and life, leading to a disproportionate relationship between their work and income, and facing workplace bullying. This has caused women to suffer from invisible oppression for a long time, limiting their thinking and courage.

The history of women being dominated makes them more conservative in their choices. They did not have their own power in the past. Women are often dominated in the family, resulting in low income, low status, and limited disposable property. They were afraid of making mistakes because men might interrupting the supply of wealth to women, that is, they are afraid of losing their property, which also leads to women being more conservative in investing, because they are afraid of losing.

Nowadays, the average salary of women is lower than that of men. The less property they own, the lower the investment cost, and the less value they generate. Except for a few, most women's investment often stays in financial management and insurance business. Among them, more are investments in health and life, and they worry about the impact of risks on themselves, so most of their investments will have low investment and low savings, which will minimize the risk. In addition, research shows that single women have a lower risk tolerance than single men or married couples [5]. This means that married women's investment decisions are influenced by their spouse's risk tolerance level. Even so, single women invest a higher proportion of their business assets than single men, even though women have slightly less assets than men [7]. Figure 2 (data source comes from the study just

mentioned [7]) shows the selectivity difference between males and females in the sample, as most females are unwilling to take risks. To eliminate this status quo bias, the first step is to allow the outside world to intervene in investment, for example, let professional investors make recommendations to solve the problems of men blindly investing and women not dared to invest. The second is to solve it from the perspective of investors, using data analysis to tell people with status quo deviations what their problems are, and let them make changes by themselves.

To alleviate the status quo deviation, the problem should be solved fundamentally. For gender, the impact on investment is more about whether the funds are sufficient. The deviation from the status quo is also because women do not have enough capital to take risks in terms of property. With the development of the times and the economy, this problem will gradually be improved.

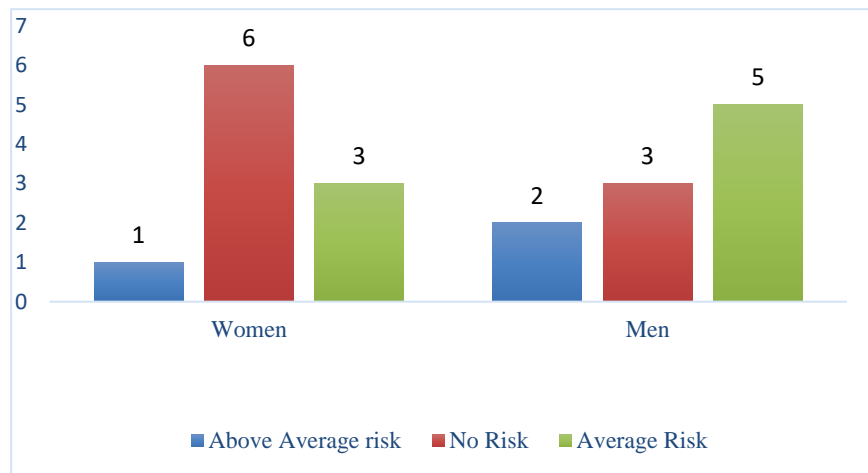


Figure 2: Percentage of men and women choosing risk level with men and women.

### 2.3. Long-run and Short-run Investment

Women prefer long-term investments compared to men because short-term investments pose greater risks. Short-term investors who trade options may buy and hold stocks for just a few weeks before selling them. Profit from price changes. Their goal is to make quick profits in a short period of time, and while betting on short-term stock price fluctuations can provide excess returns, it is a risky and volatile short-term investment strategy. Women, on the other hand, prefer long-term investments such as retirement savings and health insurance. Such investment returns are relatively low, but the returns are more stable. The short-run component captures market risk, which is interpreted as a measure of the tightness of financial constraints. The long-run component relates to business cycle risk [8,9]. This means that men are more inclined to pursue the high-reward fun of risk, while women are more inclined to be prudent. The status quo bias brought about by long- and short-term investing also mirrors the status quo bias between genders, influencing investor decision-making.

### 3. Suggestion

It can be found that most investors who have made mistakes in investment are mainly divided into two situations, lack of experience, overconfidence, and status quo bias. How to avoid and improve this situation become a question for the investor and the firm. For investors themselves, young relatives are more confident than old people, men are more confident than women, and old people and women are often investors who maintain the status quo. This lack of expertise leads them to think they understand the market structure well and over-confident in investment abilities. The solution is to learn more relevant knowledge and believe that long-term investment success is the real success. It

is not correct to blindly believe in short-term investment or the success of an investment decision, because choice is sometimes more important than ability [10]. Someone may succeed due to luck, and they will be complacent about it. It is obviously unacceptable that some people or entrepreneurs with economic background will blindly invest their own success in their field. They can professionals to help analyze investment risks and income returns and build a communication team to strive for long-term investment.

From the view of status quo bias, people usually have no ideas of their own, but simply follow the others and listen to other people's ideas or imitate previous successful cases. A study shows that using past performance as a strategy is a failure in stock market investment. In that study, over March 2008 to 2012, only about 5% of funds maintained their performance rankings in the top half for five consecutive 12-month periods, while 6% of funds were expected to re-enter the list simply by luck [11]. Another case studies the effects of transitional behavior and gender bias on a sample of 35,000 individual accounts over a six-year period [7]. Research has shown that men have more confidence in their investment abilities, believing that their abilities can lead to success, which also leads to a higher frequency of trading compared to women. Some men's blind confidence leads them to overlook the stock itself. They buy and sell stocks based on their feelings, which leads to men selling stocks at incorrect times. Women usually reduce transaction frequency and costs, thereby reducing transaction risks. This just reflects the respective problems of the two parties. If a proper balance is found between the two types of investors, the problem can be solved.

#### 4. Conclusion

This paper discusses the impact of current situation bias on investment decisions. Investment is becoming increasingly important for people, whether it is professionals who want to make money through investment, office workers who want to live a normal life after retirement, or elderly people who want to protect their health. Investment is important for them. Investment is no longer limited to financial professionals, so the importance of investment is increasingly evident. Most of the reasons that affect investment are psychological issues, and status quo bias is the most critical part. Therefore, it is important to address the impact of this current deviation.

First, this paper starts with the manifestation of stocks to express that current situation bias exists in everyone, and even highly educated individuals may make incorrect judgments due to psychological reasons. Secondly, this paper conducts in-depth research by analyzing objective factors such as gender to determine how different individuals are influenced by status quo bias. Making investments simple and understandable is the most basic solution. With the development of the economy, more and more people have entered the investment market, and there are also more people who lack professional knowledge. To promote the development of the investment market, it is unrealistic for everyone to systematically learn investment knowledge. Only by lowering the standards required for investment and allowing more people to enter the investment market can the investment industry become better. For human factors, various types of people should learn from experience and be aware of their shortcomings and address them. Investors can also carry out corresponding businesses to help them, such as analyzing the level of risk for women and providing one-on-one consulting services for the elderly.

There are some shortcomings in this paper. It does not delve deeper into the different impacts of current bias on various individuals, such as different professions, races, and countries. Different environments can create different biases in the current situation, such as people from different countries having different stereotypes about the same thing, which can also affect investment. Future studies will investigate how status biases caused by different factors affect investment and the differences between different status biases.

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