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Saturday, 19. October 2019, [Graz, 9,3 °C](#), [night](#)

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We work for **tomorrow**

Universität Graz University of Graz



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Is the stock worth the money?

Monday, 23 September 2019

 [The way investors assess stocks and consider securities was analysed by Stefan Palan. Photo: Pixabay](#)

The way investors assess stocks and consider securities was analysed by Stefan Palan. Photo: Pixabay

University of Graz Researchers Study Investors' Risk Perceptions

When investors consider securities, they primarily focus on the probability of suffering losses. The extent of possible gains or losses receives scant attention. "This implies that low-risk stocks tend to be overvalued, a result that is at odds with financial theory," says Stefan Palan from the Institute of Banking and Finance at the University of Graz, Austria. His joint work with two researchers from other universities has just been published in the Journal of Banking & Finance.

The team invited more than 300 participants to a laboratory experiment. Their task was to trade in an artificial stock market – with real money. "The experiment confirmed predictions of prior studies: stocks with no or a low probability of losses are sold for higher prices than comparable stocks with greater probability of losses," Palan summarizes. Surprisingly, traders fail to consider the size of possible gains or losses. To compound the problem, misperceptions by individual traders are also not corrected by other investors, as financial theory would predict. Furthermore, private investors were not alone in misperceiving the stocks' risks. Investment professionals like fund managers are subject to the same bias. This ultimately hurts consumers, who tend to seek safe investments. To cater to their demands, banks have in recent years increasingly been offering investment products guaranteed to at least return the initial investment. "Customers should be aware that such investments tend to be expensive and offer low returns," Palan cautions.

Publication:

[Huber, J., Palan, S., Zeisberger, S., Does Investor Risk Perception Drive Asset Prices in Markets? Experimental Evidence, Journal of Banking & Finance 108 \(105635\). DOI 10.1016/j.jbankfin.2019.105635](#)



Stefan Palan analyses how investors consider securities. Photo: Haller

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University of Graz



Study Portal



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