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The Impact of fear on the stock exchange gamblers' behaviour

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***Abstract**: The paper creates a link between the five basic fears in humans and their occurrence when we invest in the stock exchange. The author identifies five basic fears in humans: fear of being rejected, abandoned, humiliated, betrayed and the victim of an injustice. The stock market investor is confronted with the following fears: the disposition effect, the hedonistic approach, the effect of the committed expenditure, the snake bite effect, the dismissal of any regret (or the no regret approach), the status quo prejudice and the endowment effect. The author shows that the stock investor's seven fears are specific cases of the five basic fears. The first step in confronting these fears is to become aware of the mask worn.*

***Key-words:** fear, behaviour, investor, stock exchange, financial market*

1. Introduction

If the fear of the unknown prevents most people from bearing risks, so does the fear of failure. Any activity in which there is a likelihood of failure is risky. Just as fear of uncertainty and fear of failure goes through in the brain, distorting perception and inhibiting action. Where a loss is signalled, fear will be triggered. Each decision taking requires weighing strengths and weaknesses. Some focus almost only on positive results, while others concentrate on the negative ones.

By analysing the answers given by the brains of various persons, researchers have identified a neural fingerprint making the difference between the cold–blooded and the cold feet. A part of the brain associated with processing physical stimuli, the secondary somatosensory cortex had an increase in activity with the very fearful when they were informed on the waiting time. Hyperactivity in this network of brain areas can trigger the impulsive and irrational behaviour, at least when it comes to the fear of something unpleasant.

Lo and Repin analysed reactions of investors to instable events (price deviations, price trend reversals and price volatility). They rated businesspeople into

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either having or not experience, in order to see whether experience has any impact on the individual's autonomous reactions to the market events. Researchers discovered surprising correlations between the physiological reactions and the market trends. Both with non experienced and with the experienced businesspeople, blood pressure increased with the maximum volatility of an asset.

Instability was measured as the difference between the highest and the lowest price, over a short period of time, and it was calculated as a fraction of the average price. It was connected to the variation of the asset on short term. The increase of the blood pressure appears much before the respective instable event. This may indicate that the bodies of the businesspeople respond to the market stimuli, preceeding the large-scale event and which will then materialize into price variation. This observation reveals the possibility for the brain to take over the subtle signals from the market, those that cannot be found in the trend analyses.

Lo found strong links between positive and negative moods and the daily performances. People are happy when they make money and unhappy when they lose it. These correlations were the strongest for the weakest of businesspeople. They would allow their own feelings influence the perception they have on values, and trouble their decision-making process. (Berns 2010, 245-253)

2. Basic fears in humans

Fear is the strongest feeling. It triggers strong reactions and it is used to sell anything. In the scenario of this feeling, we try to avoid a potential danger and to protect ourselves. The ability to express fear appears between the age of 5 to 9 months. The person dominated by this feeling shows high inwards eyebrows, dilated pupils, wider chin and lips and lowered jaw. The notion of rejection of loss highlighted by behavioural analysts is perfectly fit here. (Hill 2010, 96-97)

G. Braden identifies three basic fears in humans: fear of being abandoned and of being severed, fear of not being good enough and fear of letting go and trust. Almost each of us feel at some point that we are alone. Each of us has an unuttered feeling that we have been parted from the person in charge with our life.

Triggering situations contain the promise that we will create the relationships which show us which of the fears to be cured. In other words, the triggering situations will show us our fears - the more dynamic they are, the deeper our fears. In love relationships, are you the one who leaves or are you the one left?

In almost all cultures there is a universal feeling - that of not being good enough. We feel that we do not deserve to have our contribution acknowledged - in our family, in our community, or at work. We feel that we do not deserve to be honoured and respected as human beings. For fear of not being good enough to enjoy love, acceptance, health or longevity, each of our relationships will reflect our fear of unworthiness.

In each of us there is the feeling that we are not safe if we do that, if we trust other people. Every day we are shown examples of behaviour that seem to support the idea that we live in a dangerous world. Although it is sure that all the frightening things we see around us belong to a reality, the key to confronting our fears is not to let them into our reality. (Braden 2007, 198-197)

L. Bourbeau has identified 5 fears that prevent us from being what we are: fear of being rejected, abandoned, humiliated, betrayed and be done injustice.

The **rejection** wound is lived in relation to the same gender parent. He/she has the role to teach us how to love others, to love ourselves and to give love. The mask worn is that of a fugitive. The fugitive is the one believing he/she is worthless. For that reason this individual will try by any means to be perfect to raise his/her profile and boost his/her visibility. The stronger the fugitive mask with an individual, the more he/she will attract situations in which to be rejected by someone else. The worst fear of a fugitive is panic.

The **abandon** wound is lived in relation to the opposite gender parent. It frequently happens that a person suffering from being abandoned also to suffer from being rejected. The mask worn is that of being dependent. The dependend-type of person has a sinking posture. The type of help needed is the support of the others. His/her expectations depend on what the others can do to help him/her. Whenever such a person is supported, he/she feels he/she is loved and helped. The greatest fear of the dependent is loneliness. The wound experienced in the case of an abandon is about having and doing rather than being, as in the case of the rejection wound.

The awakening of the **humiliation** wound happens when the child feels that one of the parents is ashamed of him/her. The humiliation wound is most often times lived in relation with the mother. The child suffering from a humiliation wound will create a masochistic mask, looking for pleasure in and being satisfied by suffering. Doing and having certain things becomes a means to offset the wound. The masochist is not aware that by doing everything for the others he/she humiliates them, making them feel that they cannot achieve anything without him/her. One important thing for such a person is freedom, i.e. not to be controlled by anybody and to do whatever he/she wants to. The biggest fear of a masochist is freedom.

The **betrayal** wound is activated until the age of 4, when sexual energy develops, thus triggering the Oedipus complex. This wound is experienced in relation with the opposite sex parent. When the child starts experiencing the betrayal feelings, he/she starts creating a domineering mask. The dominant has the highest expectations from the others, because he/she likes controlling everything and thus having supremacy over all the others. He/she states his/her convictions with extreme confidence and expects the others to adhere to them. Several persons suffering from betrayal were hurt when the opposite gender parent did not meet his/her commitments according to the expectations the child had from an ideal parent. The highest fear is to be renegated .

Injustice is lived in relation to the parent of the same sex. If the child perceives an experience as lacking justice in his/her relationship with an opposite gender person, he/she will stop accusing the other one, but will rather accuse himself/ herself of having been unfair or incorrect. When the injustice wound is open, we will wear the mask of the rigid, turning him/her into a cold, inflexible and dry at the level of the voice tone and movements. The worst fear of the rigid is coldness. (Lise Bourbeau, 2010, 142-145)

3. Specific cases of the fear to invest on the capital market

The disposition effect (Why do you rather keep the titles that come out on the wrong side than the winning ones?)

An approach developed by the investors refusing the idea to lose money is to keep the investment until balance is restored. On the contrary, the winning titles are sold to mark the gain and to congratulate oneself for having taken the right decision. And that is how the two asymmetrical behaviours generate the disposition effect, i.e. the pattern of keeping the losing titles longer than the winning ones.

This behaviour is extremely costly for the investor. Odean (1998) discovered when he studied between 1987-1993 some 6380 accounts - titles of private persons that investors sell on average 50% easier the winning titles than the losing ones. Odean also showed that the winning titles had exceeded the market price on average by 2.3% the year after the sale, while the titles kept had ranked lower than the market by 1.1%. Hence if they had kept the titles sold and if they had sold the titles they had kept, investors would have increased their performances on average by 3.4% yearly. The best investors are those who do not submit to the disposition effect. (M Mangot, 2009. 114-116).

The hedonistic approach (why you sell all the titles coming out on the wrong side on the same day).

Individuals put to value their revenues according to a value function that can be visualised in an S-curve. Beyond the reference point, which is usually 0, the value function is increasing, with a less and less important slope; the same goes in the opposite direction. What the person perceives as a gain gives him/her an always positive use, however not proportionally. The same goes with losses, which always impact on the psychological state of comfort, but to an ever lesser extent. Thus, for an investor, a gain of 2000 euro per title brings him twice as much pleasure as a gain of 1000 euro. On the contrary, he/she would prefer one loss of 2000 euro to two successive losses of 1000 euro. A consequence of the specificity of the value function is that it pushes us to take the hedonistic approach. If the investor tries to maximize pleasure provided by a market investment, he will seek to reunite losses and separate gains. Indeed, when reunited, losses are better felt and gains are more pleasant when they are separate. The hedonistic investor will use a "tailored" mental categorization to put himself/herself at ease. That mental activity is possible if the timing of transactions allows for the required associations and dissociations. This is possible for the transactions carried out on the same day.

Lim tested the respective hypothesis by analysing the timing of security disposition in the case of 78000 American families between January 1991 and November 1996. He discovered that investors showed a pattern of bargaining their titles away at short intervals and that they distanced their winning titles sessions. The share of multiple sales (on the same day) as compared to the total of sales is lower by 20% for the winning titles (8.46% of sales as compared to 10.44% of bargaining titles away). (M Mangot, 2009, 117-119).

The effect of the committed expenditure (Why you reinvest in not winning titles?)

It is the more difficult for an investor to stop placing at a loss the more time he had invested in it (time, money, energy). Instead of being aware of the loss of capital and of the uselessness of his/her efforts, the investor would rather keep the title until it moves back to balance. He/she would even invest again. For a stock market investor, a normal reaction would be to buy back the titles at a loss in order to lower the average price revenue and to have the feeling that moving back to balance goes easier.

Odean, Strahilewitz and Barber proved such a behaviour by studying transactions of 66,465 investors between 1991-1996 and 665,533 investors between 1997-1999. The second sample is twice as big as the first one, and more diverse. The authors could calculate the ratio of the titles held bought back over a year. The results show that investors had stronger beliefs when it comes to the titles at a loss. For the latter, the likelihood for an investor to strengthen his position within 12 months is of 14.6% in the first sample and 12.8% in the second one. For the winning titles the average is of 9.4%. Thus the differences between the rations for the winning titles and for the losing ones are statistically significant.

The snake bite effect (Why you never buy back the titles as a result of which you lost money?)

The performances completed have an adverse effect on the risk as compared to the ongoing performances. It is difficult for an investor to come back on a title that resulted in a loss, under the same circumstances. The trauma usually places the respective title under a cloud. At the same time, possible future losses become more striking and are more feared for when choosing a good investment.

Odean, Strahilewitz and Barber studied the past performances of the investment choice, monitoring if for the investors it is easier to buy back the titles that triggered gain in the past, as compared to the titles that had caused them losses. To this purpose they calculated the percentage of titles sold by investors and which were bought back within 12 months and they put the transactions into separate categories taking into account the result of previous sales- whether they had triggered gains or losses. The results proved that the titles sold with prospect gains are twice more often bought back than those that led to losses. (Mangot 2009, 120-122).

No regret approach (Why don't you like selling shares the value of which has just dropped?)

A loss related to the reference point is perceived on average 2.25 times more negatively comparing to the positive perception of a gain of the same value.

Grimblatt and Keloharju indicate that individual investors have difficulty in selling titles at a loss comparing to the market, the more so difficult as it is important when the underperformance is recent. One month later the impact of a lower yield than the market related to those investors' behaviour is no longer significant. The results indicate that it is rather the stock scenario that is being looked for, rather than total performance. An investor is when giving up a title where he had got some gains (in comparison with the market) if he had recently suffered losses. The higher the gain on the market of a title making up someone's revenues, the higher the likelihood of its being sold. The parameters of the two authors suggest that a recent performance can easily balance a previous loss in the mind of the investors, even if the loss was quite considerable. For instance, in the case of individual investors, a performance in the first week of January will push them sell the title easier than a 10 times bigger loss in the previous month would have done. (Grimblatt, and Keloharju, 2000).

The Nosfinger study analyses the exchanges of individual investors in 144 companies listed on the NYSE between November 1990 and January 1991. Nosfinger was interested in the investors' reaction to the data on the companies and to the macroeconomic data. According to the disposition effect, the good news circulated by individuals about a company improves its stock exchange quotation and it encourages investors to sell titles. On the other hand, the individual news leading to the decline in stock prices triggers their keeping the title. However, Nosfinger notes that generalized rises due to good macroeconomic indicators will not encourage any sale. This implies that investors sell their gaining titles especially if they can personally boast with the performance achieved. On the contrary, a loss is less felt when the entire market is troubled, because it does not make us regret that we had invested less than others did. The investor can therefore sell easier when the loss is not to be charged to himself personally (Nosfinger, 2001).

The status quo prejudice (Why won't you change anything of the content of the securities values left by grandma?)

Our tendency to leave things unchanged is the status quo prejudice. Any other decision exposes us to the risk of being wrong and losing. To decide not to decide is already a choice. In many cases we take the status quo as a legitimate milestone. Any distance to the status quo can trigger a real loss or a gain. When we opt for the status quo, alternative performances are perceived as virtual. (M Mangot, 2009, 128-130)

The endowment effect (Why do you keep among your securities shares you yourself wouldn't buy?)

The endowment effect explains the difference, within the same product, between the minimum starting point you are ready to sell for and the maximum prince we are ready to pay when we want to get it. According to economic theories, there should be no difference because for a reasoning person, any product has only one price- of the welfare it provides. However reality has shown that the difference is positive- it suggests that we attach extra value to the objective value of things we already own.

The endowment effect is related rather to sellers than buyers. The reluctance is bigger when we have to part from an object than from money. Investors are frequently attached emotionally to their shares and this adds to the endowment effect or to the status quo prejudice. (Mangot 2009, 131-133).

4. Conclusions

Freedom is the right to work decently and to live decently on that work. If you first think of money and only than of work, fear of failure emerges, blocking all the ways to business, making one be afraid of competition, of changing the methods or of anything that could change the status.

Ford is a good example of how iconoclasts treat their fear. The first step is to acknowledge that fear permeates throughout any business. It should be interpreted as a warning signal and not as a guide for action or inaction. Once it has been acknowledged, the next step is to decompose and reassess it. Ford highlights that when it is decomposed, fear of losing money is found at the core of fear in general. Ford is a good example of how restructuring fear of failure and learning from mistakes turns any negative potential into a positive one. (Berns 2010, 151)

The healing phases are the following: becoming aware of the mask worn, rebelling against the mask found, recognising that one has suffered and has got hard feelings against the respective parent and giving up the mask. Complete healing is loving yourself. (Bourbeau 2010, 146-147).

In the case of prejudicing the status quo, the committed expenditure and of the endowment effect, the mask worn is that of an addict, therefore the fear manifested is that of abandonment. In the case of the hedonistic approach and of the disposal effect the mask worn is that of a fugitive who fears being rejected. The reject of any regrets is worn by the masochistic, hiding a fear of being humiliated, and in the case of snake bite effect the mask worn is that of the rigid, reflecting the fear of injustice. Here is how starting from the 5 fundamental fears we can find them in the behaviour of the stock exchange player. We did not identify any betrayal mask among the 7 fears of the stock exchange investor.

The abandonment wound is healed when you feel well even if you are alone, and the rejection one is healed when you get in a place because you are worth it. The humiliation wound will heal when you will first meet your own needs, and the betrayal one when you give up any criticism and stop wishing to be perfect.

The financial field offers a wide range of products to whoever wants to increase his or her revenues, by increasing the likelihood to find investments according to one's needs, at the same time making one's choices ever more complex. Decisions are taken intuitively, based on friends' advice, on financial analysts or based on personal experience and on learning. Feelings may lead to inconsistent decisions or lead to reasonable choice.

Elementary statistic notion should be taken into consideration in order to come back to the average value. When a person underperforms, it is quite likely to do very well the next time. The same goes the opposite- the one who did well will most probably underperform next time.

The performances on the market are crucial for a sale than the absolute ones. Although reluctance towards losses is to a certain extent generalized with investors, the benchmark used will vary from one investor to the other. The high number of milestones (the buying rate, the highest value, the dividend yield, economic profitability, PER, P/BV, EPS) plead for a lack of stability of decision-making cognitive processes. It makes us wonder whether the respective lack of stability is older or just an ad-hoc one. Does the investor from his investments?

Fear is a feeling stronger than greed because negative data permeate throughout more rapidly than the positive ones because people's expectation is connected to the negative ones. When the latter emerge, they are overrated in importance. Extreme events, even of a lesser likelihood, are easier to be remembered.

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