

VU Research Portal

What drives risk perception? A global survey with financial professionals and laypeople

Holzmeister, Felix; Huber, Jürgen; Kirchler, Michael; Lindner, Florian; Weitzel, Utz; Zeisberger, Stefan

published in

Management Science
2020

DOI (link to publisher)

[10.1287/mnsc.2019.3526](https://doi.org/10.1287/mnsc.2019.3526)

document version

Publisher's PDF, also known as Version of record

document license

Article 25fa Dutch Copyright Act

[Link to publication in VU Research Portal](#)

citation for published version (APA)

Holzmeister, F., Huber, J., Kirchler, M., Lindner, F., Weitzel, U., & Zeisberger, S. (2020). What drives risk perception? A global survey with financial professionals and laypeople. *Management Science*, 66(9), 3977-4002. <https://doi.org/10.1287/mnsc.2019.3526>

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal ?

Take down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

E-mail address:

vuresearchportal.ub@vu.nl



Management Science

Publication details, including instructions for authors and subscription information:
<http://pubsonline.informs.org>

What Drives Risk Perception? A Global Survey with Financial Professionals and Laypeople

Felix Holzmeister, Jürgen Huber, Michael Kirchler, Florian Lindner, Utz Weitzel, Stefan Zeisberger

To cite this article:

Felix Holzmeister, Jürgen Huber, Michael Kirchler, Florian Lindner, Utz Weitzel, Stefan Zeisberger (2020) What Drives Risk Perception? A Global Survey with Financial Professionals and Laypeople. *Management Science* 66(9):3977-4002. <https://doi.org/10.1287/mnsc.2019.3526>

Full terms and conditions of use: <https://pubsonline.informs.org/Publications/Librarians-Portal/PubsOnLine-Terms-and-Conditions>

This article may be used only for the purposes of research, teaching, and/or private study. Commercial use or systematic downloading (by robots or other automatic processes) is prohibited without explicit Publisher approval, unless otherwise noted. For more information, contact permissions@informs.org.

The Publisher does not warrant or guarantee the article's accuracy, completeness, merchantability, fitness for a particular purpose, or non-infringement. Descriptions of, or references to, products or publications, or inclusion of an advertisement in this article, neither constitutes nor implies a guarantee, endorsement, or support of claims made of that product, publication, or service.

Copyright © 2020, INFORMS

Please scroll down for article—it is on subsequent pages







With 12,500 members from nearly 90 countries, INFORMS is the largest international association of operations research (O.R.) and analytics professionals and students. INFORMS provides unique networking and learning opportunities for individual professionals, and organizations of all types and sizes, to better understand and use O.R. and analytics tools and methods to transform strategic visions and achieve better outcomes.

For more information on INFORMS, its publications, membership, or meetings visit <http://www.informs.org>

What Drives Risk Perception? A Global Survey with Financial Professionals and Laypeople

Felix Holzmeister,^a Jürgen Huber,^a Michael Kirchler,^a Florian Lindner,^b Utz Weitzel,^{c,d,e} Stefan Zeisberger^{d,f}

^a Department of Banking and Finance, University of Innsbruck, Innsbruck 6020, Austria; ^b Max Planck Institute for Research on Collective Goods, 53113 Bonn, Germany; ^c School of Business and Economics, Vrije Universiteit Amsterdam, 1081 HV Amsterdam, Netherlands; ^d Institute for Management Research, Radboud University, 6525AJ Nijmegen, Netherlands; ^e Tinbergen Institute, 1082 MS Amsterdam, Netherlands; ^f Department of Banking and Finance, University of Zurich, 8032 Zurich, Switzerland

Contact: felix.holzmeister@uibk.ac.at,  <https://orcid.org/0000-0001-9606-0427> (FH); juergen.huber@uibk.ac.at,  <https://orcid.org/0000-0003-0073-0321> (JH); michael.kirchler@uibk.ac.at,  <https://orcid.org/0000-0002-5416-2545> (MK); florian.r.lindner@gmail.com (FL); u.weitzel@vu.nl,  <https://orcid.org/0000-0003-0493-9333> (UW); zeisberger@fm.ru.nl (SZ)

Received: April 8, 2019

Revised: October 14, 2019

Accepted: October 16, 2019

Published Online in Articles in Advance:
April 16, 2020

<https://doi.org/10.1287/mnsc.2019.3526>

Copyright: © 2020 INFORMS

Abstract. Risk is an integral part of many economic decisions and is vitally important in finance. Despite extensive research on decision making under risk, little is known about how risks are actually perceived by financial professionals, the key players in global financial markets. In a large-scale survey experiment with 2,213 finance professionals and 4,559 laypeople in nine countries representing ~50% of the world's population and more than 60% of the world's gross domestic product, we expose participants to return distributions with equal expected return, and we systematically vary the distributions' next three higher moments. Of these, skewness is the only moment that systematically affects financial professionals' perception of financial risk. Strikingly, variance does not influence risk perception, even though return volatility is the most common risk measure in finance in both academia and the industry. When testing other, compound risk measures, the probability to experience losses is the strongest predictor of what is perceived as being risky. Analyzing professionals' propensity to invest, skewness and loss probability also have strong predictive power, while volatility and kurtosis have some additional effect. Our results are very similar for laypeople, and they are robust across and within countries with different cultural backgrounds, as well as for different job fields of professionals.

History: Accepted by Yuval Rottenstreich, decision analysis.

Funding: This work was supported by the Austrian Science Fund [Grants P29362-G27, SFB F63, and START-Grant Y617-G11].

Supplemental Material: Data and analysis scripts are available at <https://doi.org/10.1287/mnsc.2019.3526>.

Keywords: risk perception • investment propensity • financial professionals

1. Introduction

The way in which people perceive risk shapes their behavior in a world with uncertain outcomes (Slovic 1987), and it is of vital importance for investments (Nosić and Weber 2010, Weber et al. 2013). Next to returns, risk is one of the two pivotal dimensions in financial decision making (Bell 1995, Ghysels et al. 2005) and of paramount importance in financial markets. Yet, although there are several studies that investigate how laypeople perceive financial risks (Keller et al. 1986, Bontempo et al. 1997, Weber and Hsee 1998, Unser 2000, Klos et al. 2005, Diecidue and Van De Ven 2008, Veld and Veld-Merkoulova 2008, Levy and Levy 2009, Zeisberger 2018), little is known about the risk perception of financial professionals, who are the key players in global financial markets, which are central to the functioning of modern economies. In this paper, we report results from a large-scale survey experiment with finance professionals and laypeople, allowing us to investigate the drivers of financial risk

perception and investment propensity. In contrast to normative textbook models, we find that variance does not explain the risk perception of professionals and laypeople, but skewness does. We also study participants' propensity to invest in risky assets, where, again, skewness is a strong driver. In addition, we find that volatility and kurtosis have some effect on investment propensity.

Despite the importance of risk, there is little consensus on its definition (Brachinger and Weber 1997). As we are interested in the *perception* of risk, what people perceive and define as risky is ultimately an empirical question. An alternative to this (positive) approach is to define risk from a normative-theory perspective. In finance, at least since the influential paper of Nobel Laureate Harry Markowitz (Markowitz 1952), risk is widely defined and operationalized as the variance or standard deviation of returns (commonly referred to as return volatility). This does not only apply to leading textbooks (e.g., Vernimmen

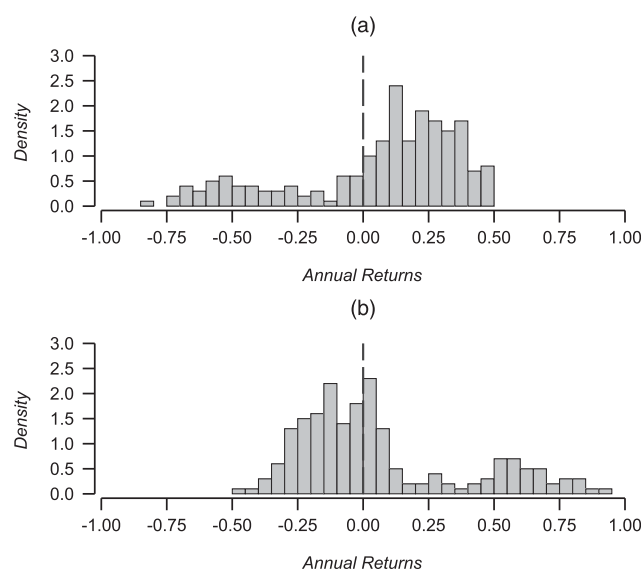
et al. 2014 and Brealey et al. 2017) and widely used asset-pricing models (Sharpe 1964, Lintner 1965, Mossin 1966), but also to much of today's financial regulation and practice. For example, cornerstone regulations of financial markets (e.g., the Markets in Financial Instruments Directive (MiFID), as well as Solvency II in the European Union) use return volatility (variance) as a risk measure for equities, currencies, interest rates, and property prices. Recent regulatory frameworks such as Basel III introduce more comprehensive conceptualizations of risk, such as value at risk (VaR) or expected shortfall (ES), both of which shift the focus to potential downside risks. Importantly, investment funds are required to provide a standardized key investor information document (KIID), in which a fund's historical volatility is the basis for calculation to communicate risks to investors. More generally, financial advisors often inform clients about the risk associated with investment opportunities by referring to the variance of their historical returns, and many financial institutions survey the risk appetite of their clients with variance-related questionnaires (Sachse et al. 2012).

To illustrate the implications of different definitions of risk, assume a decision maker has to choose one of the two financial assets characterized by the return distributions in Figure 1. Both distributions share the same mean (first moment), variance (second moment; m_2), and kurtosis (fourth moment; m_4), but they differ in skewness (third moment; m_3). If risk is

defined as the variance of returns, a decision maker should be indifferent between the two alternatives. Intuitively, however, many people will perceive one of the assets as more risky. Indeed, recent studies call into question whether investors use volatility as the (only) risk measure when evaluating financial assets (Zeisberger 2018) and suggest that the perception of risk relates to characteristics other than variance. In particular, downside risk measures (Fishburn 1984, Unser 2000, Veld and Veld-Merkoulova 2008) and skewness (Ebert and Wiesen 2011, Ebert 2015) appear to resemble the conceptualization people have in mind when evaluating "risk" more closely than measures of symmetric variation around the mean, and they have been shown to affect pricing in experimental (Huber et al. 2017) and real asset markets (Boyer et al. 2010, Bali et al. 2011, Conrad et al. 2013).

It may not come as a surprise that the perception of risk among laypeople deviates from mean-variance models in finance, which equate risk with return volatility. Yet, there are good reasons to believe that financial professionals evaluate risks more in line with mean variance. In contrast to laypeople, financial professionals are trained through education and experience in the finance industry. From a psychological perspective, the *risk as feelings* hypothesis (Loewenstein et al. 2001) posits that individuals use an "analytic system," which processes risk using probability calculus or other logical operations (Slovic et al. 2004), and an "experiential system," which is more intuitive, fast, and frugal (Kahneman 2011). The degree to which either system is activated is hypothesized to depend on the degree of emotional activation. Specifically, individual conditioning and personal experience with the risk characteristics at hand are expected to reduce emotional activation and to support a more analytic approach toward risk (Loewenstein et al. 2001, Kaufmann et al. 2013). Hence, compared with laypeople, financial professionals could be expected to perceive risk more analytically along the normative definitions commonly applied in economics and finance models. In addition, an increasing body of experimental evidence suggests that financial professionals are quite "special" in the sense that their behavior systematically differs from other types of experimental subjects, for example, with regard to anchoring (Kaustia et al. 2008), herding (Cipriani and Guarino 2009), overconfidence (Puetz and Ruenzi 2011, Gloede and Menkhoff 2014), cheating (Cohn et al. 2014), risk taking under social comparison and competition (Kirchler et al. 2018), and with respect to public signal updating in information cascades (Alevy et al. 2007). It would thus not be surprising if financial professionals differ in their perception of financial risk. In fact, it may even be one of the reasons that they chose to enter the

Figure 1. Two Histograms of Simulated Annual Returns



Notes. Two histograms of 200 simulated annual returns (in 5% bins). Both distributions share a mean of 6%, a standard deviation (m_2) of 32%, and a kurtosis (m_4) of 3.0. (a) $m_2 = 0.32$, $m_3 = -1.0$, $m_4 = 3.0$. (b) $m_2 = 0.32$, $m_3 = 1.0$, $m_4 = 3.0$. The two distributions only differ in skewness: The returns in (a) are negatively skewed with $m_3 = -1.0$, whereas the distribution in (b) is positively skewed with $m_3 = +1.0$.

finance profession. The discrepancy between the common definition of risk in finance and the actual perception of risk among laypeople is potentially harmful, but it could be resolved if clients trust financial professionals to bridge the gap as “money doctors” (Gennaioli et al. 2015), with risk-perception and investment strategies aligned with (normative) finance theory. However, there is neither large-scale empirical evidence on financial professionals’ risk perception nor a direct comparison of their perspective with that of laypeople. With this paper, we fill this substantial research gap.

To examine which characteristics of return distributions actually determine professionals’ and laypeople’s appraisal of financial risk, we conducted an experiment in which we sequentially showed participants distributions of annual asset returns calibrated to systematically differ in their higher moments and asking for their risk perception and investment propensity. By eliciting the participants’ investment propensity, we get a more comprehensive picture about how risk perception shapes investment decisions. To address the question of whether people working in the finance industry systematically differ from laypeople in evaluating financial risk, we recruited 2,213 finance professionals and 4,559 laypeople in nine countries.

In particular, we show that variations in standard deviation do not trigger systematic differences in risk perception. The skewness of asset returns, however, induces pronounced differences in the cognition of financial risk, with positively skewed returns considered to be significantly more risky than symmetric distributions and negatively skewed returns. We believe that this finding is explained by the high probability of losing and the aversion to it. Moreover, we report that investment propensity is inversely related to risk perception. Differences in the distributions’ standard deviation induce significant differences in participants’ disposition to invest, with a higher standard deviation leading to a lower willingness to invest. When focusing on compound risk measures, we report strong evidence that the probability of suffering a loss is the main driver for both the perception of financial risk and investment propensity among financial professionals and laypeople. This points toward loss aversion as the most important component of decision making under risk. Finally, we show that our results are very robust and hold for financial professionals as well as laypeople with no significant differences between the two subject pools and almost no differences across countries or job profiles. Given extensive training and experience in the industry, financial professionals might well be expected to perceive financial risk more in line with predominant risk measures than

laypeople. However, even though financial professionals, on average, react somewhat more sensitively to rather subtle variations in return distributions, differences in the evaluation of risk and the disposition to invest are negligible and insignificant between the two populations.

2. Methods

2.1. Participant Recruitment and Data Collection

We administered the experiment online using *oTree* (Chen et al. 2016) in nine countries: Brazil, China, Germany, India, Japan, Russia, the United Kingdom, the United States, and South Africa.¹ With this selection of countries, we cover the major financial markets and economies on five continents, representing ~50% of the world’s population and more than 60% of the world’s gross domestic product.

In total, we recruited 2,371 individuals working in the finance industry and 4,565 laypeople through an international network of partnered market research agencies. Respondents from the general population have been stratified by age, gender, and (not nested) education for each of the countries. Participants were preselected based on occupational information related to the user’s account available only to the agency and were redirected to either of two separate (but identical) treatments of the survey (to distinguish between the subsamples of financial professionals and laypeople). Before respondents were passed on to our survey experiment, they were asked to complete a brief screening survey on the agency’s platform without being informed about the purpose of the study. Besides some demographic filler questions, the survey asked respondents to indicate the sector they currently work in, as well as their current occupation.²

On the first screen of our experimental platform, participants were again asked to report the sector/industry they currently work in (screener question). To ensure that our “financial professionals” subsample only included participants actively employed in the finance or insurance industry, respondents that indicated *not* to work in the finance or insurance industry at this stage were excluded from the analysis. Similarly, respondents indicating to work *in* the finance or insurance industry at this stage were excluded from the analysis to ensure that our “laypeople” subsample only included participants not working in the finance or insurance sector. Importantly, participants were not informed about the purpose of the study and the screening procedures. So, they were not aware which job functions we were screening for, and, consequently, they were not able to choose strategically. Also, the screener question was administered in such a way that it was impossible to deduct which answers would lead to a

continuation of the experiment. On the screen, we offered in total 17 possible answers (e.g., construction, education, public administration, transport, etc.). For the finance professionals' subsample, only two answers (i.e., finance and insurance) did not screen out. Hence, a random click had a chance of 2/17 to reach the next stage. In the overall sample, only 2.36% of participants were excluded after our consistency checks, indicating that the prescreening by the market research agencies worked very well. For the finance professional sample, 6.66% were screened out with our consistency checks. Under the conservative assumption that the whole 6.66% of participants that were excluded from the finance professionals subsample tried to deceive us, the ones who were screened out constituted 15/17 of the total sample. Hence, about 0.89% of our sample was probably not working in finance, but managed to get into the survey with a random click.³ Apart from the consistency checks outlined above, no other exclusion criteria were applied. The number of observations before and after exclusions, demographics, and industry and occupational information are summarized in Table C.1 (Appendix C).

2.2. Experimental Design

We designed nine return distributions (based on simulated Pearson distributions) with 200 observations each, which were calibrated to share the same expected return (m_1) of 6.0% but to differ—in fixed levels—in their higher moments.

To causally infer which of the higher moments of a return distribution determines participants' risk perception and investment propensity, we systematically varied the standard deviation ($m_2 = 16%$ or $m_2 = 32%$), skewness ($m_3 = -1$, $m_3 = 0$, or $m_3 = +1$), and kurtosis ($m_4 = 3.0$ or $m_4 = 10.8$) of the distributions while holding all other moments constant.⁴ The systematic variation in moments allows for relating the variation in the dependent measures (self-reported risk perception and self-reported investment propensity) to *dichotomous* moderators. Histograms of the nine return distributions are presented in Figure 2.

The experimental implementation is inspired by and based on the design used by Zeisberger (2018). All participants were presented with histograms of all nine annual return distributions, each on a separate screen, in random order.⁵ The horizontal axis showed the possible annual return realizations from $-100%$ to $+100%$ in steps of 5%, and the vertical axis displayed the likelihood of a realization in the corresponding bins (frequency in %).

Below each return distribution, participants were asked to indicate their perception of risk associated with the particular financial asset by answering the

question: "How risky do you perceive this investment product to be?" (1, "not risky at all" to 7, "very risky"). Note that our elicitation procedure of participants' perception of financial risk resembles the way risk is frequently communicated between finance professionals and laypeople in day-to-day practical application. Next to perceived risk, respondents were asked to indicate their propensity to invest in the respective financial asset by answering the question: "How likely would you invest in this investment product?" (1, "very unlikely" to 7, "very likely"). The instructions presented to participants at the beginning of the experiment are provided in Appendix A; a sample screen of the experiment is shown in Appendix B (Figure B.1).

Given the subjective nature of our main question on risk perception, we refrained from paying performance-based incentives. This choice was also motivated by previous studies on risk perception, for example, Nosić and Weber (2010), Zeisberger (2018), and studies on forecasting (Glaser et al. 2019), which indicate that incentives do not systematically affect results in this domain. The experimental design has been reviewed and approved by the Internal Review Board of the University of Innsbruck.

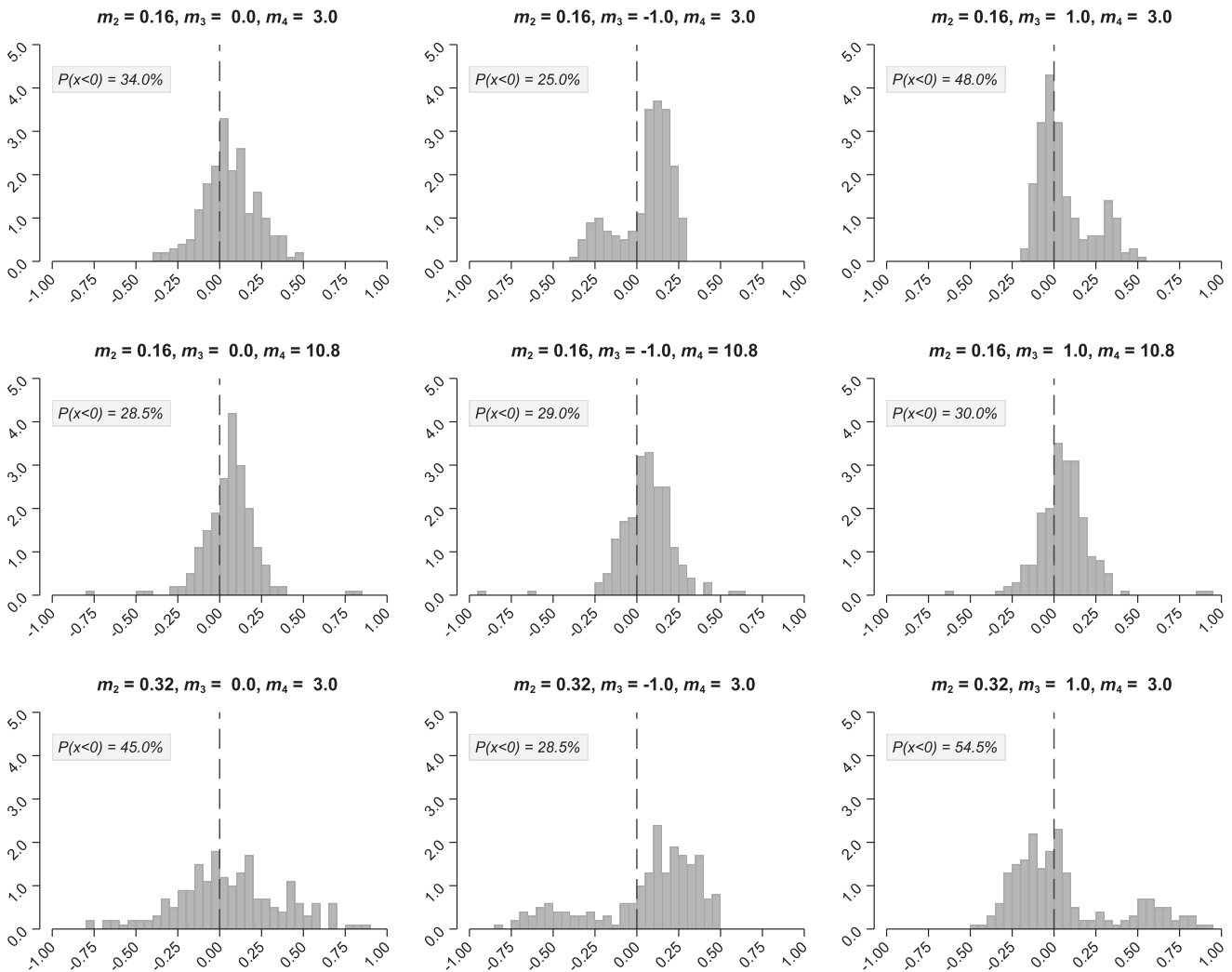
3. Results

Throughout the reporting of our results, we follow Benjamin et al. (2018) and set the default threshold for statistical significance to the 0.5% level. All analyses are based on subject-level demeaned data (i.e., controlling for subject-level fixed effects).

3.1. Risk Perception

Figure 3 summarizes the main results, separated for financial professionals and the laypeople subsamples: Panels (a) and (b) show the mean effects of variations in the return distributions' standard deviation (m_2), negative and positive skewness (m_3^- and m_3^+), and kurtosis (m_4) on perceived riskiness and investment propensity, respectively (see Table 1 for the corresponding regression analyses). We find that neither financial professionals' nor laypeople's risk perception is systematically affected by the standard deviation of returns: Even though standard deviation varies by a factor of two in our experimental setting, the effect on risk perception is negligible and not significantly different from zero in both subsamples. Similarly, variation in kurtosis does not systematically drive participants' appraisal of financial risk. Skewness, however, turns out to be a predictor of what both financial professionals and laypeople consider as being risky: Negatively skewed assets are, on average, perceived as carrying significantly less risk than symmetric assets, whereas positively skewed assets are, on average, assessed to be more

Figure 2. Histograms of the Nine Return Distributions Based on 200 Simulated Observations Each



Notes. $m_2, m_3,$ and m_4 denote standard deviation, skewness, and kurtosis, respectively. The horizontal axis refers to annual returns (in 5% bins), and the vertical axis depicts the corresponding density. $P(x < 0)$ indicates the return distribution’s probability of loss. Note that histograms shown to participants were presented in terms of frequencies (in %) rather than densities and did not provide information on loss probabilities (see Figure B.1 in Appendix B for an example).

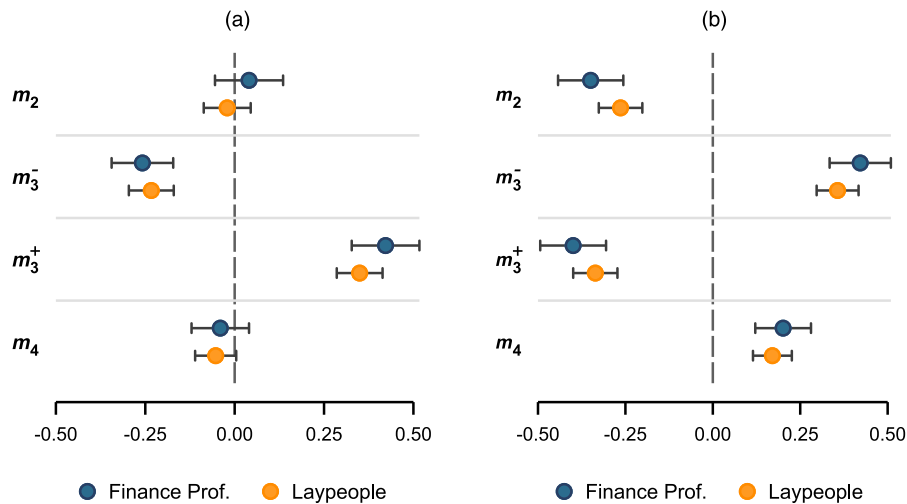
risky than symmetric assets.⁶ These results hold not only at the aggregate level but are also reflected in pairwise comparisons of risk perception between the nine distributions for financial professionals and laypeople alike (see Figure 4).

Our findings indicate considerable differences between most return distributions *within* either the group of financial professionals or laypeople. However, between the two participant groups, there are almost no differences: There is only one out of nine distribution for which average risk perception differs significantly. Furthermore, the pairs of distributions for which we do or do not detect significant differences in average risk perception in the financial professionals group are almost identical to those pairs within the group of laypeople. Overall, the results are

strikingly similar on the average-moment and single-distribution levels.

Moreover, our global study setup allows us to compare international differences in risk perception across the nine countries we analyzed. Summarizing the main result, we observe that differences in the evaluation of risk across the return distributions are remarkably homogeneous across the nine countries (Figures D.1 and D.2 in Appendix D). Hence, at least with regard to the analyzed distributions and main distributional moments we investigate, we do not find evidence for between-country differences with respect to risk perception.

Within our main participant group of financial professionals, this homogeneity holds across diverse job functions in the finance industry (Figures D.3 and D.4

Figure 3. (Color online) Effects of Variations in Higher Moments on Risk Perception (a) and Investment Propensity (b)

Notes. Mean effects of systematic variations in the return distributions' higher moments (standard deviation, skewness, and kurtosis) on subject-level demeaned risk perception (a) and subject-level demeaned investment propensity (b). The effects correspond to coefficients of dichotomous explanatory variables in an ordinary least squares regression (controlling for interaction effects), as reported in Table 1. m_2 : 1 if standard deviation = 32.0%, 0 if standard deviation = 16.0%; m_3^- : 1 if skewness = -1.0, 0 if skewness = 0; m_3^+ : 1 if skewness = +1.0, 0 if skewness = 0; m_4 : 1 if kurtosis = 10.8, 0 if kurtosis = 3.0. Error bars denote 99.5% confidence intervals based on standard errors clustered on the individual level. $n = 19,917$ (2,213 clusters) for the financial professionals (Finance Prof.) and $n = 41,031$ (4,559 clusters) for the general population subsample (Laypeople).

in Appendix D). The differences we observe are rather small or negligible. The possibly most considerable difference can be observed for fund and portfolio managers. However, these differences to other job domains are not systematic with respect to any particular distributional moment. For example, the results do not indicate that the group of fund and portfolio managers perceive volatility fundamentally different than the other occupational groups. Also, similar groups such as investment bankers or trading and brokerage professionals do not show qualitatively different results.

3.2. Investment Propensity

We now turn to our analysis on investment behavior. In contrast to risk perception, an individual's propensity to invest depends not only on the assessment of perceived risk associated with an investment, but also on individual-level risk preferences, which includes the valuation of the reward, often also in light of a possible alternative, namely, not to invest (Weber and Milliman 1997). For the sake of illustration, we refer to Figure 1: Regardless of risk preferences, participants might perceive one of the two return distributions as carrying more risk than the other if their evaluation of risk appreciates skewness. Yet, very risk-averse individuals might be reluctant to invest in *any* of the two assets, as both are perceived to entail some risk. Conversely, very risk-seeking individuals might invest fully in both distributions, despite the fact that they perceive one distribution to

be more risky than the other. Hence, when it comes to investment propensity, the confounding nature of the perception of risk on the one hand and the appreciation of outcomes on the other makes it hard to disentangle the effects causally (Dyer and Sarin 1982, Weber and Bottom 1989, Weber and Milliman 1997). Nevertheless, we consider the impact of higher moments on investment propensity as informative, because this measure resembles actual investment *decisions* more closely and ultimately could influence asset holdings and prices in financial markets.

As would be expected based on the premise that people are generally risk averse, individuals' risk perception and investment propensity are inversely related: The higher the risk associated with a return distribution is perceived to be, the lower is the willingness to invest in the asset ($\rho = -0.399$, $p < 0.005$). When turning to the effects of variation in higher moments on respondents' investment propensity, skewness is again a determining moderator: On average, participants report a higher (lower) willingness to invest in assets with positively (negatively) skewed return distributions than in assets yielding symmetric returns. However, in contrast to their insignificant effects on risk perception, standard deviation and kurtosis do significantly affect participants' willingness to invest (see Figure 3(b)). In line with mean-variance models in finance (usually assuming risk-averse agents), financial professionals' and laypeople's investment propensity is, on average, significantly lower for return distributions with high volatility.

Table 1. Regression Analysis

Variable	Risk perception			Investment propensity		
	(1)	(2)	(3)	(4)	(5)	(6)
	Fin. Prof.	Gen. Pop.	(1) – (2)	Fin. Prof.	Gen. Pop.	(4) – (5)
m_2	0.040 (0.034)	-0.021 (0.023)	0.061 [2.199]	-0.349 * (0.033)	-0.264* (0.022)	-0.085 [4.577]
m_3^-	-0.258* (0.031)	-0.233* (0.022)	-0.025 [0.429]	0.422* (0.031)	0.357* (0.021)	0.065 [2.937]
m_3^+	0.422* (0.034)	0.350* (0.023)	0.072 [3.169]	-0.399* (0.034)	-0.336* (0.023)	-0.063 [2.468]
m_4	-0.040 (0.029)	-0.053 (0.020)	0.013 [0.134]	0.201* (0.028)	0.170* (0.020)	0.031 [0.786]
$m_2 \times m_3^-$	-0.003 (0.043)	0.011 (0.030)	-0.015 [0.078]	0.128* (0.041)	0.077 (0.029)	0.051 [1.012]
$m_2 \times m_3^+$	0.057 (0.045)	0.061 (0.030)	-0.004 [0.006]	0.074 (0.044)	0.068 (0.029)	0.006 [0.014]
$m_3^- \times m_4$	0.274* (0.043)	0.252* (0.031)	0.022 [0.171]	-0.521* (0.043)	-0.486* (0.030)	-0.035 [0.456]
$m_3^+ \times m_4$	-0.465* (0.044)	-0.357* (0.030)	-0.107 [4.035]	0.384* (0.044)	0.277* (0.030)	0.107 [4.085]
Constant	-0.040 (0.018)	-0.011 (0.013)	-0.029 [1.716]	0.035 (0.018)	0.031 (0.013)	0.004 [0.025]
No. of observations	19,917	41,031		19,917	41,031	
No. of clusters	2,213	4,559		2,213	4,559	
Adjusted R^2	0.048	0.035		0.089	0.062	

Notes. Ordinary least squares regressions of risk perception and investment propensity on dichotomous covariates (and their interactions) capturing systematic variation in the distributions’ higher moments. Models (1) and (2) report regressions of participants’ risk perception (subject-level demeaned data) for the subsamples “financial professionals” (Fin. Prof.) and “general population” (Gen. Pop.), respectively; models (4) and (5) report regressions of participants’ investment propensity (subject-level demeaned data) for the same subsamples. Standard errors, clustered on the individual level, are reported in parentheses. Columns (3) and (6) report effect size differences between the two subsamples—that is, differences between models (1) and (2) and (4) and (5), respectively; $\chi^2(1)$ statistics based on Wald tests after seemingly unrelated regressions are reported in brackets. m_2 : 1 if standard deviation = 32.0%, 0 if standard deviation = 16.0%; m_3^- : 1 if skewness = -1.0, 0 if skewness = 0; m_3^+ : 1 if skewness = +1.0, 0 if skewness = 0; m_4 : 1 if kurtosis = 10.8, 0 if kurtosis = 3.0. \times indicates interaction terms.

* $p < 0.005$.

The fact that variance matters more for investment decisions than for risk perception is in line with the concept of relative risk attitudes, which disentangles expected utility theory’s labelling of the shape of the utility function as “risk preferences” into the separate appreciation of risk and rewards (Dyer and Sarin 1982, Weber and Milliman 1997). According to this approach, if two assets with the same expected return are perceived as equally risky, there is still room for different evaluations of the assets’ attractiveness in an investment decision, because of the separate assessment of the monetary reward.⁷ Another explanation for our results is the framework of perceived risk attitudes proposed by Weber and Bottom (1989), which relates risk perception of alternatives to choice behavior. Specifically, Weber and Milliman (1997) show that changes in alternatives can change the perception of risk. Translated to our context, this approach suggests that, when the risk component is assessed in

isolation, return distributions with different standard deviations are perceived as equally risky. However, when asked how much to invest, which automatically includes the alternative not to take any risk at all, then a return distribution with a higher (lower) standard deviation appears to be more (less) risky in relative terms, resulting in a lower (higher) investment propensity.

Similar to the results on risk perception, the identified patterns are reflected in pairwise comparisons of investment propensity across the nine return distributions and do not significantly differ between the two subsamples (see Figure 5). The number of pairwise comparisons between return distributions with significant differences in average investment propensity is higher than for risk perception *within* each group of participants. Between financial professionals and laypeople, again, only one out of nine distributions shows a significant difference (the same distribution as for risk perception). Hence, again, our

Figure 4. (Color online) Pairwise Differences in Participants’ Mean Risk Perception Between the Nine Return Distributions

	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 10.8$	$m_2 = 0.32$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = +1.0$ $m_4 = 3.0$
$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 3.0$	-0.054 (0.029)	0.037 (0.035)	0.175* (0.031)	0.218* (0.032)	0.234* (0.031)	0.298* (0.035)	0.258* (0.030)	0.680* (0.036)	0.777* (0.038)
$m_2 = 0.32$ $m_3 = -1.0$ $m_4 = 3.0$	-0.009 (0.024)	-0.007 (0.030)	0.138* (0.032)	0.181* (0.033)	0.197* (0.031)	0.261* (0.036)	0.221* (0.031)	0.643* (0.036)	0.740* (0.038)
$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 10.8$	0.172* (0.022)	0.182* (0.022)	-0.051 (0.024)	0.042 (0.030)	0.059 (0.028)	0.123* (0.033)	0.083* (0.027)	0.505* (0.033)	0.602* (0.035)
$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 10.8$	0.180* (0.023)	0.190* (0.023)	0.008 (0.020)	-0.016 (0.027)	0.016 (0.029)	0.080 (0.034)	0.040 (0.028)	0.462* (0.034)	0.559* (0.036)
$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 10.8$	0.199* (0.022)	0.209* (0.022)	0.027 (0.019)	0.019 (0.020)	-0.019 (0.024)	0.064 (0.032)	0.024 (0.026)	0.446* (0.033)	0.543* (0.035)
$m_2 = 0.32$ $m_3 = 0.0$ $m_4 = 3.0$	0.212* (0.024)	0.222* (0.024)	0.040 (0.022)	0.032 (0.023)	0.013 (0.022)	0.032 (0.031)	-0.040 (0.031)	0.382* (0.037)	0.479* (0.039)
$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 3.0$	0.233* (0.021)	0.243* (0.021)	0.061* (0.019)	0.053 (0.020)	0.034 (0.019)	0.021 (0.022)	-0.029 (0.022)	0.422* (0.032)	0.519* (0.034)
$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 3.0$	0.583* (0.024)	0.592* (0.025)	0.410* (0.022)	0.403* (0.023)	0.384* (0.022)	0.370* (0.025)	0.350* (0.022)	0.043 (0.031)	0.097 (0.039)
$m_2 = 0.32$ $m_3 = +1.0$ $m_4 = 3.0$	0.623* (0.026)	0.633* (0.026)	0.451* (0.024)	0.443* (0.025)	0.424* (0.024)	0.411* (0.026)	0.390* (0.023)	0.040 (0.026)	0.100* (0.035)

Notes. Pairwise differences in participants’ mean risk perception (subject-level demeaned data) between the nine return distributions for the subsamples “financial professionals” (upper triangle; $n = 2,213$) and “general population” (lower triangle; $n = 4,559$). Effect sizes refer to “column minus row” in the upper triangle and “row minus column” in the lower triangle, respectively. Shadings indicate the magnitude of effect sizes. The cells on the diagonal report differences between the two subsamples per distribution ($n = 6,772$). m_2 , m_3 , and m_4 denote standard deviation, skewness, and kurtosis, respectively. Standard errors clustered on the individual level are reported in parentheses. Return distributions are sorted in ascending order of mean perceived riskiness in the pooled data.

* $p < 0.005$ (based on paired-sample t -tests for off-diagonal differences and independent-sample t -tests for differences on the diagonal).

results are strikingly similar between financial professionals and laymen (see also Figure 3(b)).

Furthermore, as for risk perception, participants’ propensity to invest is strikingly consistent across countries (Figures D.5 and D.6 in Appendix D). For occupational categories in the finance sector (Figures D.7 and D.8 in Appendix D), we observe consistent results compared with our analysis on risk perception. The biggest difference is, again, for fund and portfolio managers where a *relative* preference for positively skewed investments can be observed, not affecting, however, our overall qualitative observations. Other groups such as professionals in risk management, investment banking, private banking, and wealth management or trading do not differ in any systematic way from the average.

3.3. Compound Risk Measures

Aside from examining the effects of variation in higher moments, we investigate whether *compound* risk measures explain participants’ risk perception and investment propensity. Indeed, experimental evidence suggests that compound measures focusing on downside risk—such as the expected value of a potential loss, lower partial moments, or the likelihood of ending up with negative outcomes (Weber and Hsee 1998, Unser 2000, Veld and Veld-Merkoulova 2008, Zeisberger 2018)—serve as more reliable predictors of individuals’ actual risk-taking behavior than single higher moments. In an explorative analysis, we therefore compute a number of compound risk measures (Brachinger and Weber 1997), some of which have recently been included in financial

Figure 5. (Color online) Pairwise Differences in Mean Investment Propensity Between the Nine Return Distributions

	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 10.8$	$m_2 = 0.32$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = +1.0$ $m_4 = 3.0$
$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 3.0$	0.068 (0.028)	-0.221* (0.031)	-0.221* (0.033)	-0.236* (0.030)	-0.320* (0.030)	-0.422* (0.030)	-0.771* (0.034)	-0.821* (0.035)	-1.096* (0.037)
$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 10.8$	-0.186* (0.022)	0.034 (0.026)	-0.000 (0.032)	-0.015 (0.029)	-0.099* (0.029)	-0.201* (0.028)	-0.550* (0.032)	-0.601* (0.033)	-0.876* (0.035)
$m_2 = 0.32$ $m_3 = -1.0$ $m_4 = 3.0$	-0.186* (0.023)	0.000 (0.022)	0.034 (0.029)	-0.015 (0.031)	-0.099* (0.031)	-0.201* (0.030)	-0.550* (0.034)	-0.600* (0.035)	-0.875* (0.037)
$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 10.8$	-0.245* (0.021)	-0.059* (0.020)	-0.059 (0.021)	0.077* (0.024)	-0.084* (0.027)	-0.186* (0.027)	-0.535* (0.031)	-0.585* (0.032)	-0.860* (0.034)
$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 10.8$	-0.315* (0.021)	-0.129* (0.020)	-0.129* (0.021)	-0.070* (0.019)	0.064 (0.024)	-0.102* (0.027)	-0.451* (0.031)	-0.501* (0.032)	-0.776* (0.034)
$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 3.0$	-0.357* (0.020)	-0.170* (0.019)	-0.170* (0.021)	-0.112* (0.018)	-0.042 (0.018)	0.004 (0.022)	-0.349* (0.031)	-0.399* (0.032)	-0.675* (0.034)
$m_2 = 0.32$ $m_3 = 0.0$ $m_4 = 3.0$	-0.621* (0.023)	-0.434* (0.022)	-0.434* (0.024)	-0.376* (0.021)	-0.306* (0.021)	-0.264* (0.021)	-0.082 (0.029)	-0.050 (0.036)	-0.325* (0.037)
$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 3.0$	-0.693* (0.024)	-0.506* (0.023)	-0.506* (0.024)	-0.448* (0.022)	-0.378* (0.022)	-0.336* (0.021)	-0.072* (0.024)	-0.060 (0.031)	-0.275* (0.038)
$m_2 = 0.32$ $m_3 = +1.0$ $m_4 = 3.0$	-0.889* (0.024)	-0.703* (0.024)	-0.703* (0.025)	-0.644* (0.023)	-0.574* (0.023)	-0.532* (0.022)	-0.268* (0.025)	-0.196* (0.025)	-0.139* (0.033)

Notes. Pairwise differences in subjects' mean investment propensity (subject-level demeaned data) between the nine return distributions for the subsamples "financial professionals" (upper triangle; $n = 2,213$) and "general population" (lower triangle; $n = 4,559$). Effect sizes refer to "column minus row" in the upper triangle and "row minus column" in the lower triangle, respectively. Shadings indicate the magnitude of effect sizes. The cells on the diagonal report differences between the two subsamples per distribution ($n = 6,772$). m_2 , m_3 , and m_4 denote standard deviation, skewness, and kurtosis, respectively. Standard errors clustered on the individual level are reported in parentheses. Return distributions are sorted in descending order of mean propensity to invest in the pooled data.

* $p < 0.005$ (based on paired-sample t -tests for off-diagonal differences and independent-sample t -tests for differences on the diagonal).

regulation (e.g., Basel III). In particular, we include the following conceptualizations of risk: (i) the absolute deviation from the mean, (ii) the semivariance, (iii) the expected value of loss, (iv) the probability of loss, (v) the interquartile range, (vi) the maximum loss (i.e., minimum return), (vii) the 90% value at risk, and (viii) the 95% value at risk. In addition, we examine the explanatory power of (ix) Cumulative Prospect Theory (CPT) (Tversky and Kahneman 1992), applying the authors' frequently used functional forms and parametrization: $\alpha = \beta = 0.88$, $\gamma = 0.61$, $\delta = 0.69$, and $\lambda = 2.25$.

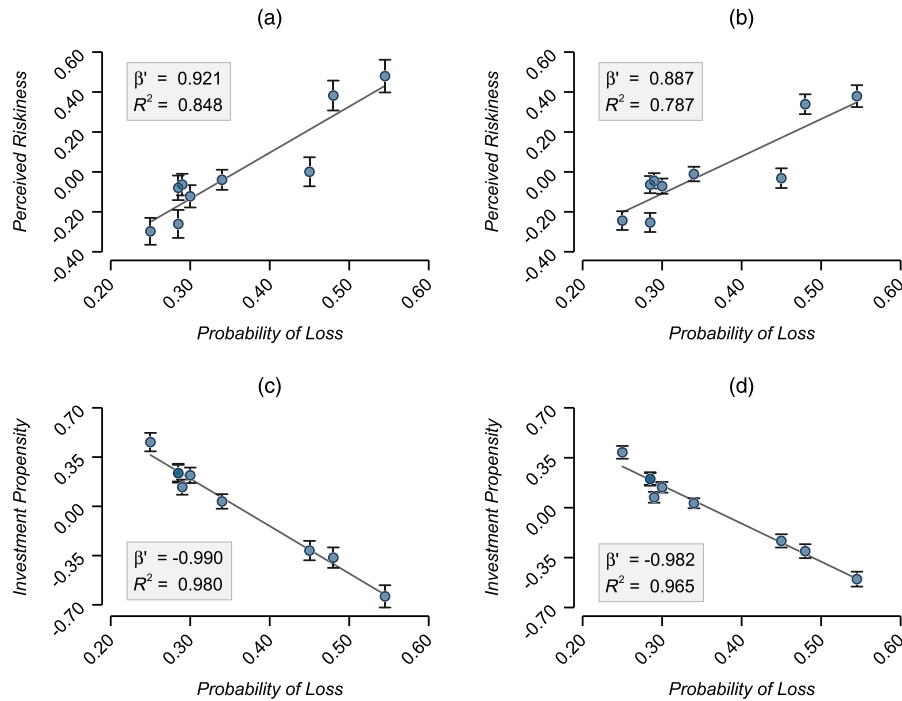
We find that one of these nine measures consistently predicts both the perception of risk and investment propensity to a much larger degree than all other measures: the probability to incur losses (see

Figure 6 for a regression analysis on loss probability, as well as Figures D.9 and D.10 in Appendix D for results of the nine risk measures on risk perception and investment propensity).

We find that the probability to incur a loss explains the bulk of variation in mean perceived riskiness, and this is even slightly higher for financial professionals: 84.8% for professionals and 78.7% for laypeople. This result is even stronger for participants' propensity to invest, where the distribution's loss probability explains 98.0% and 96.5% of the variation in means for financial professionals and laypeople, respectively.⁸

3.4. Limitations

When designing the experiment, we had to make several choices regarding the overall experimental

Figure 6. (Color online) Regressions of Perceived Riskiness and Investment Propensity on the Distribution's Probability of Loss

Notes. Ordinary least squares regressions of mean perceived riskiness ((a) and (b)) and mean investment propensity ((c) and (d)) on the distribution's probability of loss for the subsamples "financial professionals" ((a) and (c)) and "laypeople" ((b) and (d)). Error bars indicate 99.5% confidence intervals. β' and R^2 denote the standardized correlation coefficient (equivalent to the Pearson correlation coefficient ρ) and the R^2 of the regression, respectively.

setting and the manipulation of the different conditions. One of these choices was how to present and communicate the potentially relevant drivers of risk perception and investment propensity. In this regard, we consciously opted for using histograms, as they do not include a time dimension, and as they constitute a commonly used form of representing (return) distributions. Yet, inferring empirical higher moments from histograms of returns is anything but straightforward, and our results crucially depend on participants' ability to discern differences in distributions' moments. Our result that risk perception and investment propensity are systematically driven by the distributions' higher moments (and the compound risk measure of loss probability) is indicative of participants' ability to detect even subtle differences in distributional characteristics. This line of reasoning is further corroborated by the fact that the effects attributable to systematic variations in the distributions' higher moments are highly consistent across the nine countries in our sample (see Figures D.1, D.2, D.5, and D.6), as well as the 13 job functions within the subsample of finance professionals (see Figures D.3, D.4, D.7, and D.8). Eventually, the question whether people do associate the perceived

differences in return distributions with the higher moment—which is actually driving the differences—cannot be addressed using our experimental design. We leave this question for further research.

4. Discussion and Conclusion

We contribute to a growing and highly relevant research area of experimental studies examining behavioral aspects in financial professionals' decision making (Alevy et al. 2007, Kaustia et al. 2008, Cipriani and Guarino 2009, Puetz and Ruenzi 2011, Cohn et al. 2014, Gloede and Menkhoff 2014, Kirchler et al. 2018). Utilizing an experimental design that allows for a systematic separation of higher moments, potentially driving risk perception and investment propensity, our study facilitates a more comprehensive understanding of how financial professionals assess risks in a financial context in comparison with laypeople across nine major economies.

Although standard deviation is the most commonly used measure to describe financial risks in theoretical models, finance textbooks, financial advice, and regulatory frameworks, our results suggest that variations in standard deviation do not trigger systematic differences in risk perception, not even for

financial professionals. The skewness of the asset returns, however, induces pronounced differences in the cognition of financial risk: Positively skewed returns are considered to be significantly more risky than symmetric distributions, and symmetric distributions are perceived as carrying significantly more risk than negatively skewed returns. We believe that this finding is explained by the probability of losing and the aversion to it. This conjecture is underpinned by the fact that the interaction effects between skewness and kurtosis ($p < 0.005$) are of similar magnitude as the effect of skewness, but point in the opposite direction (see Table 1). Wald tests suggest that there is indeed no statistically significant effect of skewness on risk perception for the distributions with high kurtosis, neither for the finance professionals ($m_3^- + m_3^- \times m_4 = 0: p = 0.625; m_3^+ + m_3^+ \times m_4 = 0: p = 0.202$) nor the general population subsample ($m_3^- + m_3^- \times m_4 = 0: p = 0.403; m_3^+ + m_3^+ \times m_4 = 0: p = 0.737$). Given that the probability to incur losses is—*ceteris paribus*—attenuated with increasing levels of kurtosis (conditional on the expected return being positive), this result is indicative of skewness being primarily perceived through the channel of loss probabilities.

Investment propensity, as would be expected for risk-averse agents, is inversely related to risk perception. Differences in the distributions' standard deviation do induce significant differences in participants' disposition to invest, with a higher standard deviation leading to a lower willingness to invest. Given the premise that investment propensity is a function of both risk perception and risk preferences, the discrepancy in volatility effects might indicate that people's risk attitude—but not risk perception—is responsive to volatility measures.

Furthermore, we find strong evidence that the probability of suffering a loss is the main driver for both the perception of financial risk and investment propensity among financial professionals and laypeople. At the aggregate level, the probability to incur losses explains approximately 80% of the variation in average risk perception and more than 96% of the variation in average investment propensity. This points toward loss aversion as the most important component of decision making under risk, in support of the notion that there might be no risk aversion beyond loss aversion (Novemsky and Kahneman 2005, Dhimi 2016). Given the strong effect of loss probabilities, Cumulative Prospect Theory (Tversky and Kahneman 1992) comes into mind as a prominent explanation for our data. However, compared with the compound risk measures we tested and, in particular, compared with loss probability, we find that CPT has little explanatory power.

Importantly, all patterns identified among financial professionals bear a striking similarity to the patterns

observed among laypeople. Given extensive training and experience in the industry, financial professionals might well be expected to perceive financial risk more in line with predominant risk measures than laypeople. However, even though financial professionals, on average, react somewhat more sensitively to rather subtle variations in return distributions, differences in the evaluation of risk and the disposition to invest are negligible and insignificant between the two populations.

In a similar vein, risk perception and investment propensity are fairly homogeneous across countries. In particular, the identified patterns driving individuals' perception of risk and their willingness to invest are largely similar in the different countries in our sample, even though the countries differ considerably in many cultural and social aspects.

Our results have important implications for financial regulation, particularly for the communication of risks to investors. Many regulations and directives still rely to a large extent on variance as a measure of risk (e.g., KIID, MiFID, or Solvency II). Given that neither financial professionals nor laypeople seem to perceive variance as the defining moment of risk, measures that include skewness and loss probabilities should be given more attention in financial regulation. This particularly applies to key investor information documents, where a one-dimensional synthetic risk and reward indicator (SRRI) communicates risk with seven categories of low to high variance. Such a reduction of risk to variance can be compared with reducing nutrition facts to calories. Just as food contains multiple ingredients, financial products contain multiple dimensions of risk that are, as we show, important and perceived very differently by investors. In the spirit of the "nutrition facts label" for food, we advocate the use of a "risk facts label" for financial products that includes not only the variance of returns, but also skewness and, most importantly, loss probabilities. Our finding that financial professionals, including those in private banking and wealth management, do not differ substantially from laypeople highlights that retail investors' characteristic risk perception is not necessarily "advised away" when financial advisors are consulted.

Acknowledgments

The authors thank Richard Hule; Marie-Claire Villeval; seminar participants at the Complexity in Economics Seminar at Tinbergen Institute (Amsterdam), the Experimental Finance Workshop at the Max Planck Institute for Research in Collective Goods (Bonn), and the Second Swedish National Pension Fund AP2 Workshop at the University of Gothenburg (2018); as well as conference participants of the Euregio Economics Workshop 2018 at the University of Innsbruck, the Experimental Finance Conference 2018 in

Heidelberg, and the Conference for Decision Sciences 2018 in Konstanz for their valuable comments.

Appendix A. Experimental Instructions

The box presents the English version of the instructions as shown to participants in the online survey. The instructions have been translated into the official language for each country by a professional translation agency. For countries with more than one official language, the most common language in the respective country was used. The sampling procedures employed by the partnered market research agencies ensured that only respondents with knowledge in the particular language were recruited. The experiment has been conducted in Portuguese (Brazil), Mandarin (China), German (Germany), English (India, the United Kingdom, the United States, and South Africa), Japanese (Japan), and Russian (Russia). The translation process involved a back-and-forth translation loop (based on the English version as depicted below) to guarantee high-quality translations. Furthermore, for each of the six languages, we asked scholars whose mother tongue is one of the particular languages and who are familiar with the economic terminology to review the translated version of the experiment. By that means, we ensured that the translations are not only

immaculate in linguistic and grammatical terms, but also terminology- and content-wise.

To explain how to read and interpret the histograms of annual returns, a sample distribution was depicted below the instructions on the introductory screen. The mean, standard deviation, skewness, and excess kurtosis of this sample distribution were 6.0%, 16.0%, -0.12 , and -0.79 , respectively.

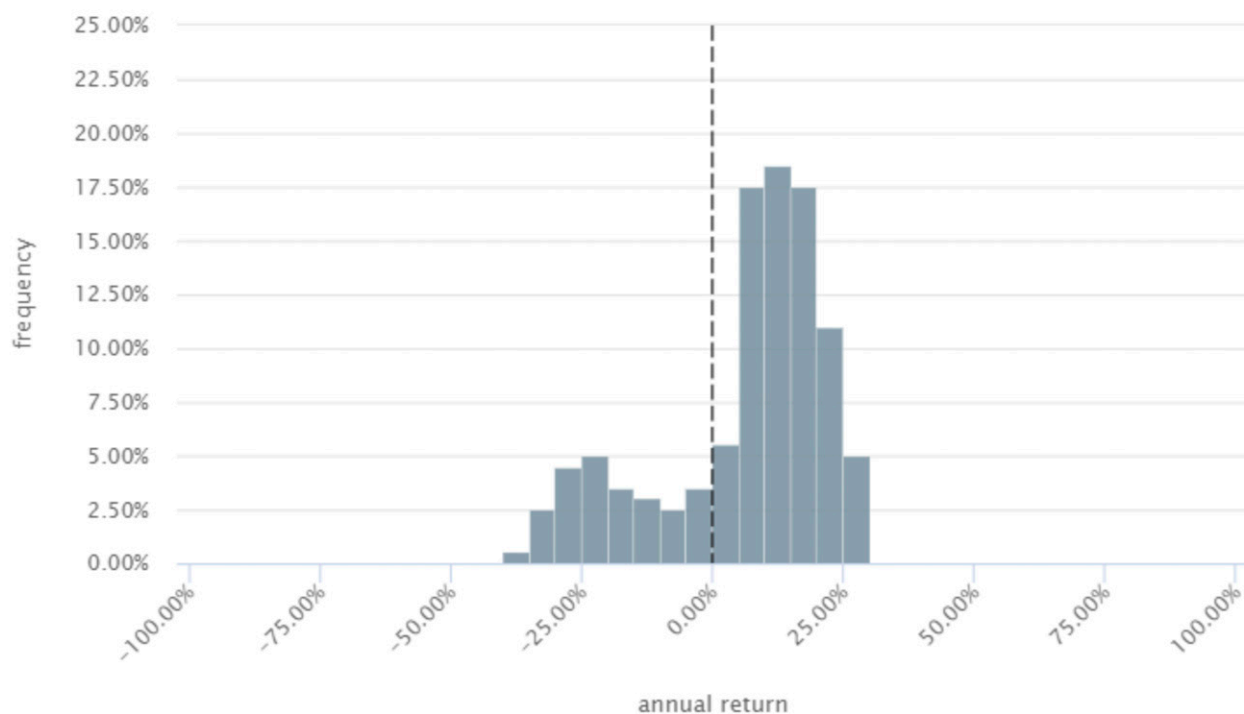
In the following, you will be presented with nine hypothetical annual return distributions, each referring to different investment products. For each investment product, you will be asked to indicate how risky you perceive the investment to be on a 7-point scale from “Not risky at all” to “Very risky” and how likely you would invest in this investment product on a 7-point scale from “Very unlikely” to “Very likely”.

On the horizontal axis, you see the possible annual return realizations from -100.0% to $+100.0\%$ in 5% steps. On the vertical axis, you see how likely such a realization is. The higher a bar, the more likely a given outcome is. All nine return distributions you will see have the same average (= expected) return of 6.00%.

Appendix B. Sample Screen of the Online Experiment

Figure B.1. (Color online) Sample Screen of the Online Experiment

Page 1 of 9



How risky do you perceive this investment product to be?



How likely would you invest in this investment product?



Notes. The example shows an annual return distribution with mean (m_1) of 6.0%, standard deviation (m_2) of 16.0%, skewness (m_3) of 1.0, and kurtosis (m_4) = 3.0. The horizontal axis depicts the annual returns (in 5% bins), and the vertical axis is scaled in terms of frequencies (in %). The nine distributions were presented sequentially (on separate screens) in random order.

Appendix C. Participant Descriptive Data and Exclusions**Table C.1.** Descriptive Statistics

Variable/characteristic	BR	CN	DE	IN	JP	RU	UK	US	ZA	Total
Finance sector										
Exclusions										
N (total)	202	342	243	227	265	232	226	354	280	2,371
No. of exclusions	0	4	0	11	0	90	0	1	52	158
N (after exclusions)	202	338	243	216	265	142	226	353	228	2,213
Demographics										
Females	49.0%	43.6%	47.7%	37.5%	33.5%	69.0%	50.0%	54.7%	68.9%	49.4%
Age	38.36 (12.47)	33.45 (8.47)	46.16 (11.82)	37.39 (10.53)	47.59 (10.96)	36.67 (8.96)	44.28 (12.39)	46.46 (12.22)	35.71 (10.38)	41.00 (12.23)
Industry										
Finance	86.1%	91.7%	70.4%	86.6%	67.2%	95.8%	82.3%	62.3%	78.1%	78.6%
Insurance	13.9%	8.3%	29.6%	13.4%	32.8%	4.2%	17.7%	37.7%	21.9%	21.4%
Occupation										
Accounting & Controlling	22.3%	16.9%	14.4%	19.0%	4.2%	26.8%	16.4%	13.3%	35.1%	17.7%
Advisory Services	6.4%	4.4%	7.4%	4.2%	6.8%	1.4%	4.9%	4.8%	6.6%	5.3%
Analysis & Research	6.4%	7.1%	2.1%	5.1%	3.0%	5.6%	4.9%	6.2%	4.0%	5.0%
Fund & PF Management	2.0%	6.8%	0.8%	7.4%	2.3%	3.5%	1.3%	2.6%	1.3%	3.2%
Administration	13.4%	8.6%	17.7%	10.7%	10.6%	2.8%	20.8%	16.2%	16.7%	13.4%
Investment Banking	7.4%	6.8%	2.1%	12.0%	2.6%	9.2%	8.4%	5.7%	3.5%	6.2%
Private Banking	0.5%	4.1%	9.1%	5.1%	0.8%	9.9%	2.7%	2.0%	0.9%	3.6%
Risk Management	4.0%	6.8%	1.7%	11.6%	3.8%	8.5%	3.1%	5.1%	4.0%	5.2%
Sales	8.9%	5.9%	11.9%	5.1%	20.0%	9.2%	6.2%	7.4%	3.5%	8.7%
Management	3.5%	15.7%	2.1%	9.3%	11.3%	3.5%	9.3%	5.7%	7.0%	8.0%
Trading, Brokerage	6.4%	1.8%	1.7%	2.3%	3.0%	4.2%	0.9%	1.4%	2.6%	2.5%
Other: Finance	17.3%	12.7%	21.4%	8.3%	23.4%	13.4%	18.1%	17.3%	14.0%	16.4%
Other: Non-Finance	1.5%	2.4%	7.8%	0.0%	8.3%	2.1%	3.1%	12.5%	0.9%	4.9%
Laypeople										
Exclusions										
N (total)	437	687	452	429	505	438	463	681	473	4,565
No. of exclusions	1	0	0	1	1	1	0	1	1	6
N (after exclusions)	436	687	452	428	504	437	463	680	472	4,559
Demographics										
Females	52.5%	49.3%	53.1%	47.0%	51.8%	49.4%	49.8%	51.3%	51.1%	50.6%
Age	38.45 (12.48)	38.08 (11.20)	43.40 (13.27)	37.53 (11.93)	44.20 (13.59)	39.19 (10.29)	42.68 (13.58)	42.68 (13.58)	37.03 (12.79)	40.37 (12.85)
Industry										
Agriculture	1.4%	2.3%	0.0%	1.2%	1.2%	2.3%	0.4%	1.0%	5.1%	1.7%
Automotive	1.4%	0.7%	2.4%	0.7%	1.4%	1.8%	1.1%	0.7%	2.3%	1.3%
Business Services	6.0%	3.5%	3.1%	4.9%	6.4%	7.8%	3.2%	4.0%	8.3%	5.1%
Communications	2.3%	2.9%	0.9%	2.6%	0.4%	1.1%	0.9%	0.9%	2.8%	1.7%
Construction	2.3%	6.7%	4.7%	2.3%	3.6%	10.3%	3.7%	4.7%	4.2%	4.8%
Education	10.3%	8.9%	4.4%	15.9%	2.4%	6.4%	10.4%	10.6%	9.5%	8.8%
Health & Social Work	3.2%	3.2%	9.3%	4.0%	3.8%	3.9%	6.9%	6.3%	5.1%	5.0%
Hotels & Catering	0.9%	1.3%	1.1%	0.7%	1.0%	2.1%	3.7%	0.7%	1.1%	1.4%
IT Services	9.4%	10.6%	5.3%	30.4%	7.5%	6.2%	5.4%	4.4%	13.6%	9.9%
Manufacturing	3.0%	23.1%	7.5%	11.7%	11.1%	11.9%	4.1%	4.6%	7.8%	9.9%
Mining & Utilities	0.7%	2.6%	0.4%	1.4%	1.8%	1.6%	0.7%	0.3%	1.3%	1.2%
Public Administration	5.7%	4.5%	6.4%	2.8%	1.8%	3.7%	4.1%	2.2%	3.0%	3.7%
Transport	2.8%	3.6%	4.4%	2.6%	2.6%	2.5%	3.2%	2.5%	3.0%	3.0%
Wholesale & Retail Trade	10.1%	7.1%	10.0%	3.3%	9.1%	11.2%	6.9%	6.5%	6.1%	7.7%
Other	40.6%	18.8%	40.0%	15.7%	46.0%	27.2%	45.4%	50.6%	26.5%	34.7%

Notes. Number of exclusions, demographics (gender ratio and age; standard deviations are provided in parentheses), industry, and occupational information separated by subsamples and countries. Number of exclusions refer to respondents indicating to work in an industry not matching the information provided in the market research agency's database and/or the responses in the prescreening survey (see Methods for details). BR, Brazil; CN, China; DE, Germany; IN, India; JP, Japan; RU, Russia; UK, United Kingdom; US, United States; ZA, South Africa.

Appendix D. Supplementary Figures

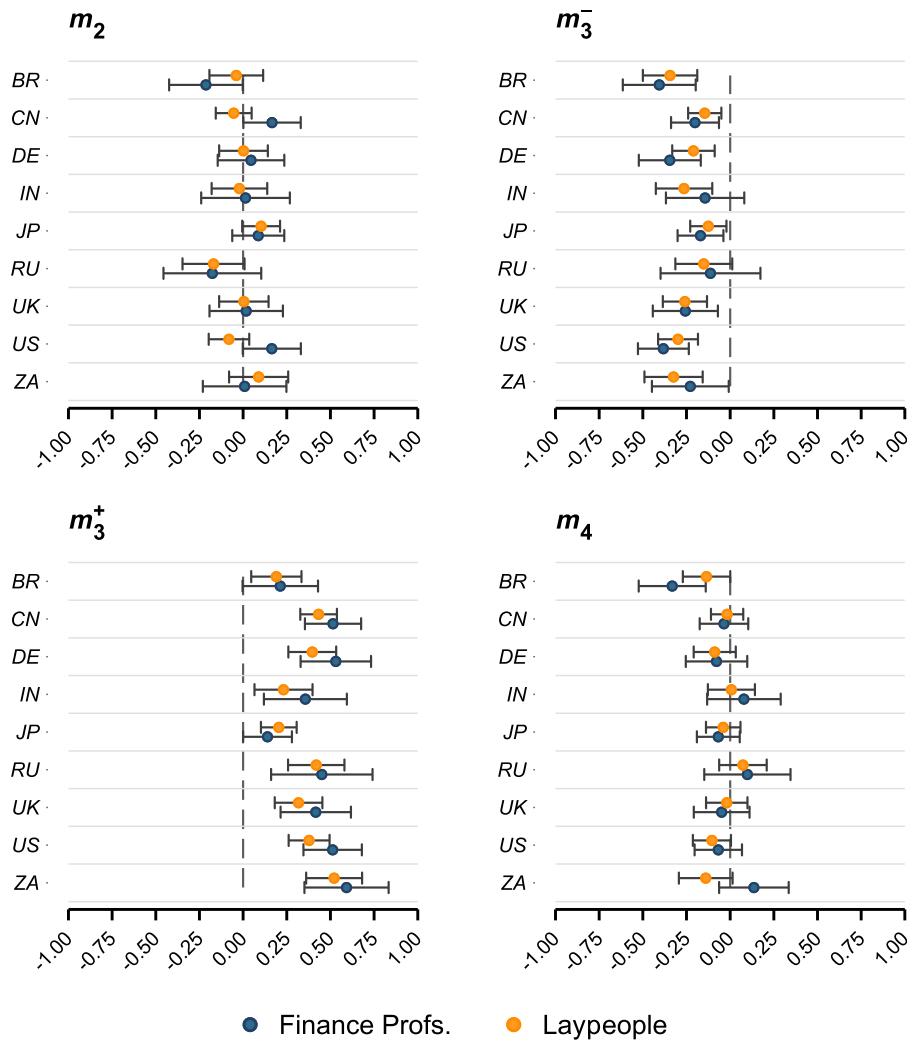
Figure D.1. (Color online) Mean Risk Perception for the Nine Return Distributions Separated by Countries

	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 10.8$	$m_2 = 0.32$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = +1.0$ $m_4 = 3.0$
BR	-0.262* (0.047)	-0.224* (0.045)	-0.068 (0.038)	-0.096 (0.042)	-0.008 (0.038)	0.008 (0.047)	0.102 (0.036)	0.299* (0.049)	0.249* (0.052)
CN	-0.216* (0.032)	-0.328* (0.034)	-0.065 (0.027)	-0.075 (0.030)	-0.046 (0.027)	-0.033 (0.034)	-0.052 (0.024)	0.408* (0.035)	0.407* (0.038)
DE	-0.288* (0.041)	-0.252* (0.039)	-0.072 (0.033)	-0.115* (0.039)	-0.079 (0.033)	-0.013 (0.043)	-0.031 (0.030)	0.413* (0.046)	0.439* (0.050)
IN	-0.219* (0.050)	-0.202* (0.050)	-0.135* (0.040)	0.036 (0.043)	-0.062 (0.039)	-0.004 (0.050)	0.005 (0.039)	0.278* (0.051)	0.302* (0.054)
JP	-0.206* (0.032)	-0.085 (0.035)	-0.126* (0.026)	-0.115* (0.028)	-0.080* (0.026)	0.032 (0.034)	-0.066 (0.024)	0.116* (0.036)	0.530* (0.042)
RU	-0.170* (0.054)	-0.320* (0.058)	-0.015 (0.042)	0.051 (0.047)	0.091 (0.045)	-0.200* (0.057)	-0.029 (0.042)	0.398* (0.053)	0.194* (0.061)
UK	-0.281* (0.042)	-0.243* (0.039)	-0.094 (0.034)	-0.052 (0.037)	-0.076 (0.034)	-0.014 (0.044)	-0.023 (0.031)	0.327* (0.045)	0.456* (0.049)
US	-0.341* (0.035)	-0.299* (0.037)	-0.104* (0.028)	-0.106* (0.033)	-0.074* (0.026)	-0.011 (0.038)	-0.014 (0.026)	0.410* (0.038)	0.540* (0.044)
ZA	-0.339* (0.048)	-0.313* (0.050)	-0.102 (0.042)	-0.096 (0.046)	-0.083 (0.040)	0.017 (0.053)	-0.046 (0.039)	0.498* (0.052)	0.464* (0.055)

Notes. Mean risk perception (subject-level demeaned data) for the nine return distributions separated by countries. Return distributions are sorted in ascending order of mean perceived riskiness in the pooled data. Shadings indicate the magnitude of effect sizes. m_2 , m_3 , and m_4 denote standard deviation, skewness, and kurtosis, respectively. Standard errors clustered on the individual level are reported in parentheses. BR, Brazil ($n = 638$); CN, China ($n = 1,025$); DE, Germany ($n = 695$); IN, India ($n = 644$); JP, Japan ($n = 769$); RU, Russia ($n = 579$); UK, United Kingdom ($n = 689$); US, United States ($n = 1,033$); ZA, South Africa ($n = 700$).

* $p < 0.005$ (based on one-sample t -tests for a test size $\mu_0 = 0$).

Figure D.2. (Color online) Effects of Variations in Higher Moments on Risk Perception Separated by Countries



Notes. Mean effects of systematic variations in the return distributions' higher moments (standard deviation, skewness, and kurtosis) on subject-level demeaned risk perception. The effects correspond to coefficients of dichotomous explanatory variables in an ordinary least squares regression (controlling for interaction effects). m_2 : 1 if standard deviation = 32.0%, 0 if standard deviation = 16.0%; m_3^- : 1 if skewness = -1.0, 0 if skewness = 0; m_3^+ : 1 if skewness = +1.0, 0 if skewness = 0; m_4 : 1 if kurtosis = 10.8, 0 if kurtosis = 3.0. Error bars denote 99.5% confidence intervals based on standard errors clustered on the individual level. BR, Brazil ($n_{FP} = 202, n_{GP} = 436$); CN, China ($n_{FP} = 338, n_{GP} = 687$); DE, Germany ($n_{FP} = 243, n_{GP} = 452$); IN, India ($n_{FP} = 216, n_{GP} = 428$); JP, Japan ($n_{FP} = 265, n_{GP} = 504$); RU, Russia ($n_{FP} = 142, n_{GP} = 437$); UK, United Kingdom ($n_{FP} = 226, n_{GP} = 463$); US, United States ($n_{FP} = 353, n_{GP} = 680$); ZA, South Africa ($n_{FP} = 228, n_{GP} = 472$).

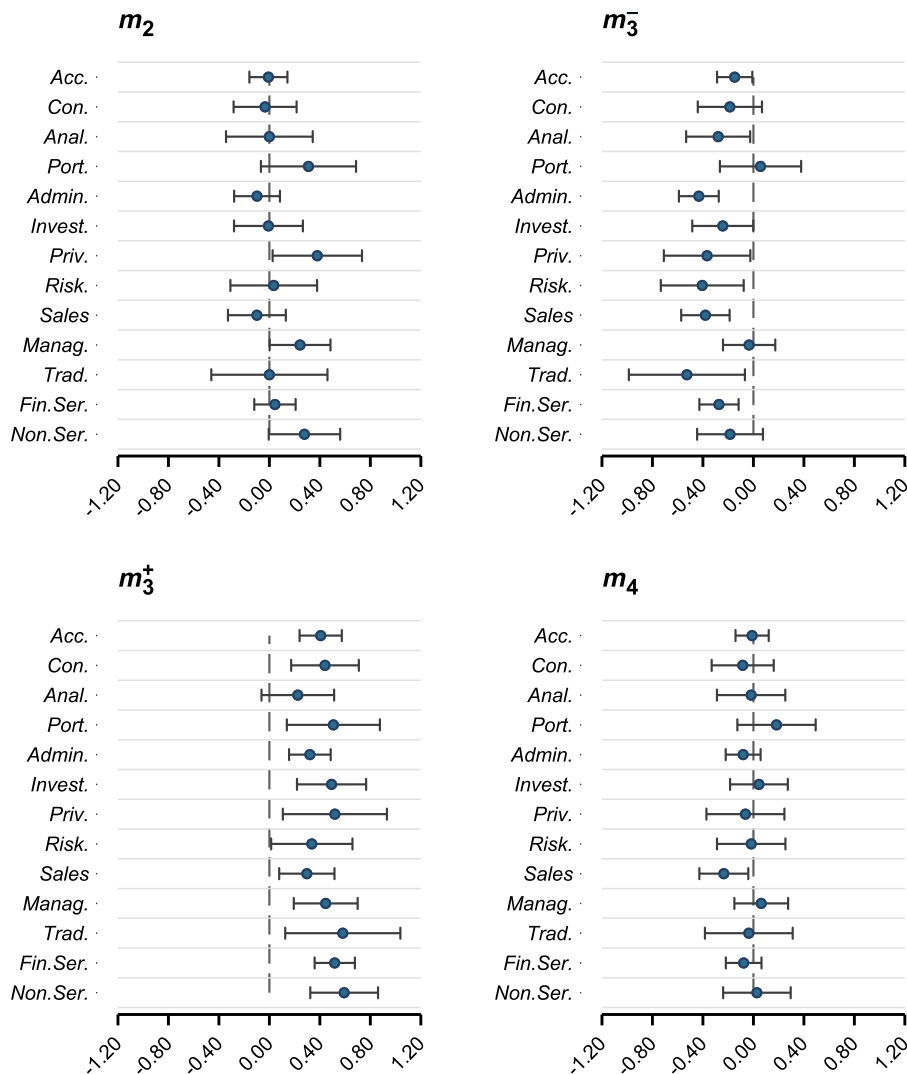
Figure D.3. (Color online) Mean Risk Perception for the Nine Return Distributions Separated by Occupation

	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = +1.0$ $m_4 = 3.0$
Acc.	-0.162 (0.059)	-0.318* (0.060)	-0.075 (0.046)	-0.024 (0.052)	-0.141* (0.045)	-0.013 (0.042)	-0.021 (0.057)	0.393* (0.067)	0.360* (0.069)
Con.	-0.254 (0.102)	-0.195 (0.099)	-0.068 (0.088)	-0.153 (0.100)	-0.085 (0.084)	-0.068 (0.068)	-0.102 (0.109)	0.373* (0.106)	0.551* (0.132)
Anal.	-0.261 (0.108)	-0.279 (0.120)	-0.054 (0.089)	-0.000 (0.113)	-0.153 (0.087)	0.018 (0.081)	0.018 (0.129)	0.243 (0.119)	0.468* (0.134)
Port.	-0.166 (0.130)	-0.180 (0.160)	-0.011 (0.097)	-0.039 (0.116)	0.059 (0.122)	-0.222 (0.097)	0.088 (0.136)	0.285 (0.142)	0.186 (0.164)
Admin.	-0.364* (0.062)	-0.415* (0.065)	-0.172* (0.050)	-0.013 (0.056)	-0.033 (0.051)	0.068 (0.047)	-0.030 (0.070)	0.389* (0.070)	0.568* (0.074)
Invest.	-0.297* (0.098)	-0.422* (0.095)	-0.083 (0.085)	-0.010 (0.087)	0.005 (0.076)	-0.054 (0.076)	-0.061 (0.107)	0.439* (0.104)	0.483* (0.126)
Priv.	-0.544* (0.129)	-0.051 (0.127)	-0.101 (0.121)	-0.241 (0.122)	0.177 (0.108)	-0.177 (0.099)	0.203 (0.129)	0.342 (0.139)	0.392 (0.168)
Risk.	-0.413* (0.112)	-0.085 (0.127)	-0.137 (0.098)	-0.025 (0.102)	-0.102 (0.088)	-0.008 (0.096)	0.027 (0.122)	0.329 (0.125)	0.415* (0.123)
Sales	-0.344* (0.079)	-0.204 (0.080)	-0.037 (0.066)	-0.198 (0.074)	-0.032 (0.066)	0.036 (0.056)	-0.063 (0.092)	0.333* (0.094)	0.510* (0.097)
Manag.	-0.204 (0.086)	-0.102 (0.096)	-0.210* (0.073)	-0.108 (0.080)	-0.142 (0.066)	-0.170 (0.066)	0.073 (0.093)	0.276 (0.101)	0.587* (0.105)
Trad.	-0.527* (0.164)	-0.309 (0.170)	-0.091 (0.141)	-0.036 (0.121)	0.018 (0.127)	-0.000 (0.123)	-0.000 (0.172)	0.582* (0.167)	0.364 (0.182)
Fin.Ser.	-0.333* (0.059)	-0.239* (0.058)	-0.193* (0.050)	-0.137 (0.051)	-0.038 (0.048)	-0.060 (0.045)	-0.016 (0.064)	0.458* (0.064)	0.560* (0.070)
Non.Ser.	-0.309* (0.099)	-0.281 (0.104)	-0.198 (0.074)	-0.096 (0.107)	-0.105 (0.081)	-0.123 (0.070)	0.154 (0.117)	0.469* (0.111)	0.488* (0.139)

Notes. Mean risk perception (subject-level demeaned data) for the nine return distributions separated by participants' occupations. Return distributions are sorted in ascending order of the mean perceived riskiness in the pooled data. Shadings indicate the magnitude of effect sizes. m_2 , m_3 , and m_4 denote standard deviation, skewness, and kurtosis, respectively. Standard errors clustered on the individual level are reported in parentheses. Acc., Accounting, Controlling, or Compliance ($n = 392$); Con., Advisory Services or Consulting ($n = 118$); Anal., Analysis, Research, or Valuation ($n = 112$); Port., Fund or Portfolio Management ($n = 71$); Admin., Office Administration, Human Resources, or IT ($n = 297$); Invest., Investment Banking or Investment Services ($n = 137$); Priv., Private Banking or Wealth Management ($n = 80$); Risk, Risk Management, Treasury, or Financial Planning ($n = 116$); Sales, Sales ($n = 192$); Manag., Top or Middle Management ($n = 177$); Trad., Trading or Brokerage ($n = 55$); Fin.Ser., Other Finance-Related Services ($n = 364$); Non.Ser., Other Non-Finance-Related Services ($n = 108$).

* $p < 0.005$ (based on one-sample t -tests for a test size $\mu_0 = 0$).

Figure D.4. (Color online) Effects of Variations in Higher moments on Risk Perception Separated by Occupations



Notes. Mean effects of systematic variations in the return distributions' higher moments (standard deviation, skewness, and kurtosis) on subject-level demeaned risk perception. The effects correspond to coefficients of dichotomous explanatory variables in an ordinary least squares regression (controlling for interaction effects). m_2 : 1 if standard deviation = 32.0%, 0 if standard deviation = 16.0%; m_3^- : 1 if skewness = -1.0, 0 if skewness = 0; m_3^+ : 1 if skewness = +1.0, 0 if skewness = 0; m_4 : 1 if kurtosis = 10.8, 0 if kurtosis = 3.0. Error bars denote 99.5% confidence intervals based on standard errors clustered on the individual level. Acc., Accounting, Controlling, or Compliance ($n = 392$); Con., Advisory Services or Consulting ($n = 118$); Anal., Analysis, Research, or Valuation ($n = 112$); Port., Fund or Portfolio Management ($n = 71$); Admin., Office Administration, Human Resources, or IT ($n = 297$); Invest., Investment Banking or Investment Services ($n = 137$); Priv., Private Banking or Wealth Management ($n = 80$); Risk, Risk Management, Treasury, or Financial Planning ($n = 116$); Sales, Sales ($n = 192$); Manag., Top- or Middle Management ($n = 177$); Trad., Trading or Brokerage ($n = 55$); Fin.Ser., Other Finance-Related Services ($n = 364$); Non.Ser., Other Non-Finance-Related Services ($n = 108$).

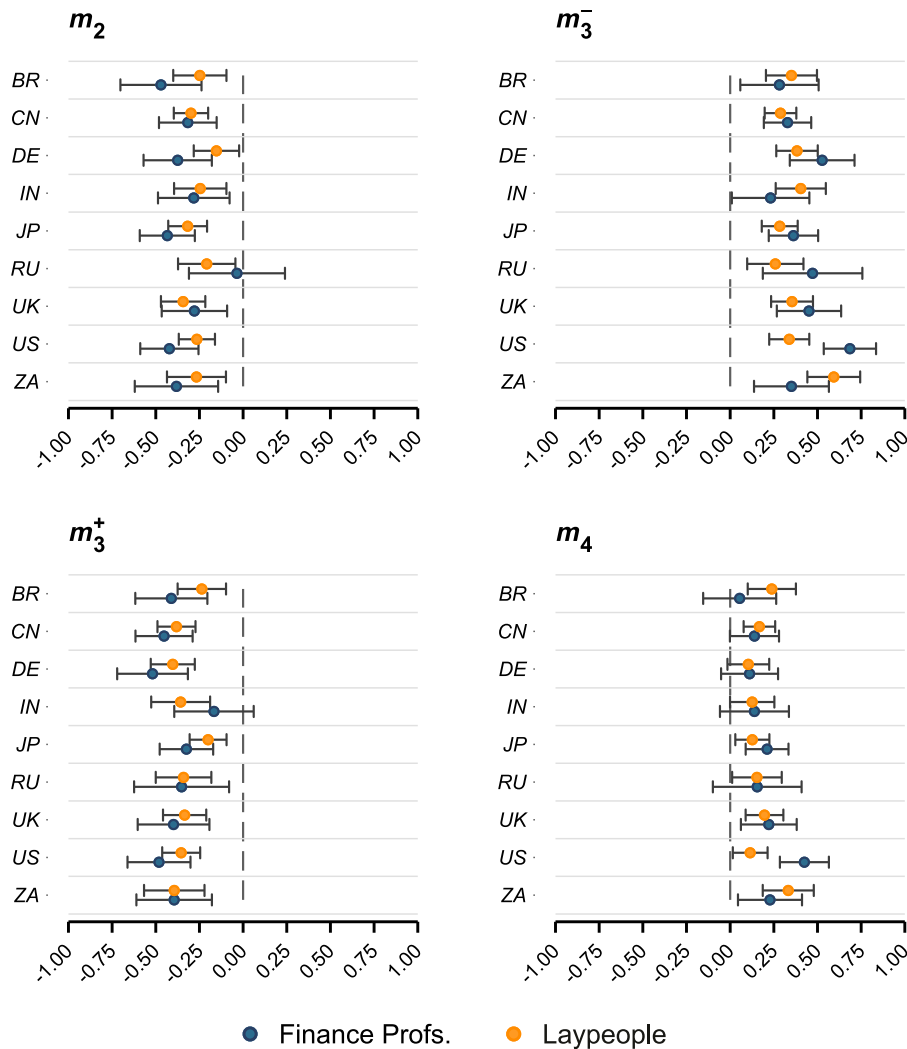
Figure D.5. (Color online) Mean Investment Propensity for the Nine Return Distributions Separated by Countries

	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 10.8$	$m_2 = 0.32$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = +1.0$ $m_4 = 3.0$
BR	0.390* (0.046)	0.241* (0.043)	0.125 (0.048)	0.144* (0.039)	0.033 (0.039)	0.061 (0.036)	-0.257* (0.048)	-0.231* (0.047)	-0.505* (0.049)
CN	0.357* (0.030)	0.214* (0.029)	0.193* (0.032)	0.175* (0.027)	0.137* (0.026)	0.056 (0.024)	-0.248* (0.032)	-0.349* (0.036)	-0.534* (0.040)
DE	0.455* (0.039)	0.128* (0.037)	0.210* (0.040)	0.185* (0.034)	0.109* (0.032)	0.021 (0.030)	-0.209* (0.041)	-0.422* (0.044)	-0.478* (0.045)
IN	0.368* (0.044)	0.152* (0.039)	0.220* (0.044)	0.200* (0.038)	0.074 (0.039)	0.022 (0.037)	-0.236* (0.046)	-0.272* (0.051)	-0.528* (0.054)
JP	0.351* (0.031)	0.197* (0.029)	0.184* (0.033)	0.189* (0.024)	0.141* (0.026)	0.041 (0.025)	-0.317* (0.034)	-0.203* (0.035)	-0.582* (0.040)
RU	0.318* (0.052)	0.161* (0.046)	0.299* (0.056)	0.071 (0.045)	0.009 (0.044)	0.007 (0.042)	-0.159* (0.051)	-0.336* (0.052)	-0.371* (0.056)
UK	0.433* (0.039)	0.252* (0.035)	0.188* (0.039)	0.159* (0.032)	0.066 (0.033)	0.047 (0.029)	-0.275* (0.040)	-0.308* (0.041)	-0.561* (0.046)
US	0.486* (0.034)	0.249* (0.030)	0.240* (0.036)	0.185* (0.027)	0.161* (0.027)	0.029 (0.027)	-0.290* (0.035)	-0.369* (0.038)	-0.691* (0.040)
ZA	0.510* (0.048)	0.294* (0.044)	0.263* (0.049)	0.177* (0.040)	0.034 (0.041)	-0.005 (0.038)	-0.309* (0.052)	-0.399* (0.052)	-0.565* (0.056)

Notes. Mean investment propensity (subject-level demeaned data) for the nine return distributions separated by countries. Return distributions are sorted in descending order of mean propensity to invest in the pooled data. Shadings indicate the magnitude of effect sizes. m_2 , m_3 , and m_4 denote standard deviation, skewness, and kurtosis, respectively. Standard errors clustered on the individual level are reported in parentheses. BR, Brazil ($n = 638$); CN, China ($n = 1,025$); DE, Germany ($n = 695$); IN, India ($n = 644$); JP, Japan ($n = 769$); RU, Russia ($n = 579$); UK, United Kingdom ($n = 689$); US, United States ($n = 1,033$); ZA, South Africa ($n = 700$).

* $p < 0.005$ (based on one-sample t -tests for a test size $\mu_0 = 0$).

Figure D.6. (Color online) Effects of Variations in Higher Moments on Investment Propensity Separated by Countries



Notes. Mean effects of systematic variations in the return distributions' higher moments (standard deviation, skewness, and kurtosis) on subject-level demeaned investment propensity. The effects correspond to coefficients of dichotomous explanatory variables in an ordinary least squares regression (controlling for interaction effects). m_2 : 1 if standard deviation = 32.0%, 0 if standard deviation = 16.0%; m_3^- : 1 if skewness = -1.0, 0 if skewness = 0; m_3^+ : 1 if skewness = +1.0, 0 if skewness = 0; m_4 : 1 if kurtosis = 10.8, 0 if kurtosis = 3.0. Error bars denote 99.5% confidence intervals based on standard errors clustered on the individual level. BR, Brazil ($n_{FP} = 202, n_{GP} = 436$); CN, China ($n_{FP} = 338, n_{GP} = 687$); DE, Germany ($n_{FP} = 243, n_{GP} = 452$); IN, India ($n_{FP} = 216, n_{GP} = 428$); JP, Japan ($n_{FP} = 265, n_{GP} = 504$); RU, Russia ($n_{FP} = 142, n_{GP} = 437$); UK, United Kingdom ($n_{FP} = 226, n_{GP} = 463$); US, United States ($n_{FP} = 353, n_{GP} = 680$); ZA, South Africa ($n_{FP} = 228, n_{GP} = 472$).

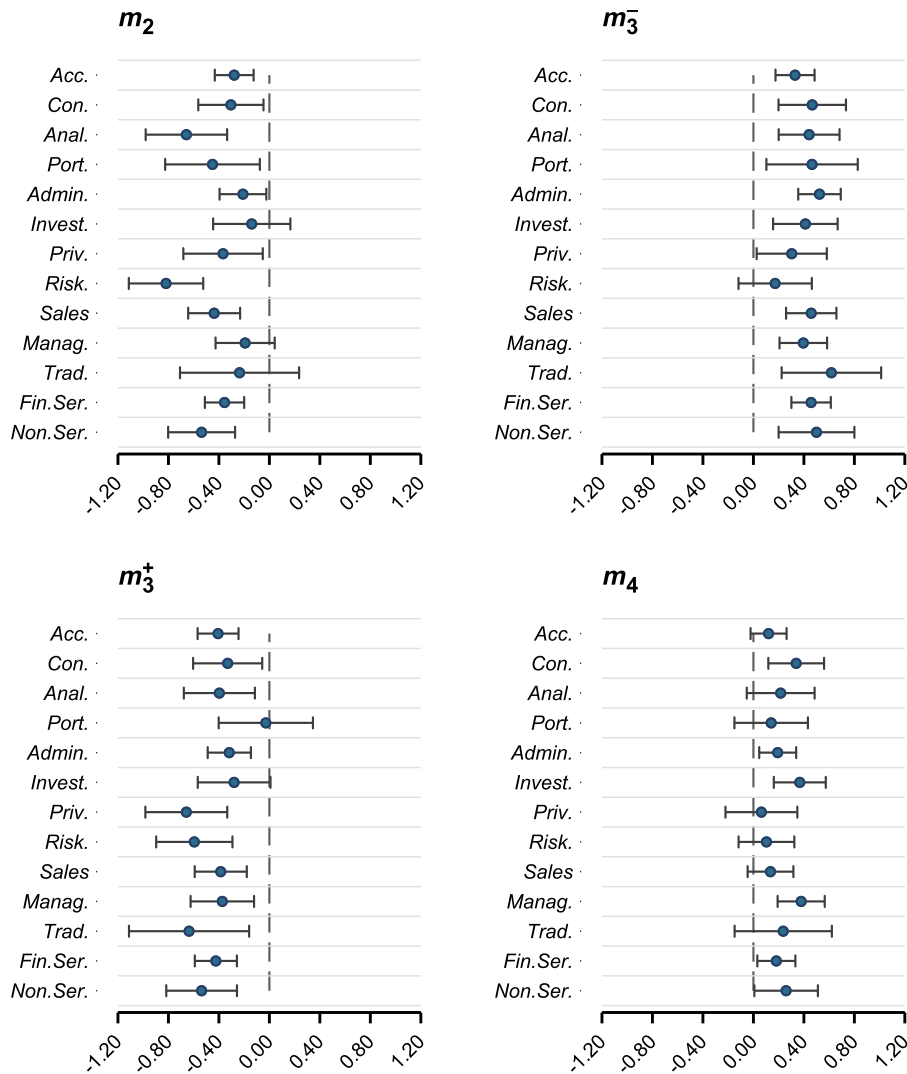
Figure D.7. (Color online) Mean Investment Propensity for the Nine Return Distributions Separated by Occupations

	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 10.8$	$m_2 = 0.32$ $m_3 = -1.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = -1.0$ $m_4 = 10.8$	$m_2 = 0.16$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = 0.0$ $m_4 = 3.0$	$m_2 = 0.16$ $m_3 = +1.0$ $m_4 = 3.0$	$m_2 = 0.32$ $m_3 = +1.0$ $m_4 = 3.0$
Acc.	0.382* (0.058)	0.172* (0.054)	0.246* (0.060)	0.218* (0.046)	0.075 (0.047)	0.052 (0.045)	-0.227* (0.057)	-0.355* (0.063)	-0.564* (0.070)
Con.	0.477* (0.102)	0.350* (0.087)	0.215 (0.097)	0.172 (0.089)	0.037 (0.090)	0.011 (0.074)	-0.294* (0.102)	-0.319* (0.106)	-0.650* (0.120)
Anal.	0.557* (0.092)	0.331* (0.112)	0.151 (0.118)	0.151 (0.085)	0.223 (0.090)	0.115 (0.076)	-0.543* (0.122)	-0.281 (0.121)	-0.705* (0.132)
Port.	0.459* (0.138)	0.135 (0.129)	0.092 (0.138)	0.219 (0.107)	-0.020 (0.119)	-0.006 (0.105)	-0.457* (0.130)	-0.034 (0.143)	-0.387 (0.162)
Admin.	0.500* (0.064)	0.169* (0.054)	0.226* (0.065)	0.239* (0.052)	0.077 (0.050)	-0.024 (0.051)	-0.233* (0.068)	-0.342* (0.070)	-0.612* (0.074)
Invest.	0.328* (0.100)	0.284* (0.076)	0.431* (0.088)	0.240* (0.082)	0.093 (0.080)	-0.083 (0.082)	-0.223 (0.109)	-0.363* (0.108)	-0.708* (0.127)
Priv.	0.466* (0.110)	0.225 (0.113)	0.136 (0.132)	0.301 (0.114)	0.060 (0.110)	0.162 (0.089)	-0.205 (0.113)	-0.496* (0.113)	-0.648* (0.145)
Risk.	0.400* (0.109)	0.331* (0.090)	0.219 (0.109)	0.254* (0.081)	0.237* (0.080)	0.228* (0.079)	-0.591* (0.105)	-0.367* (0.118)	-0.712* (0.131)
Sales	0.496* (0.074)	0.173 (0.069)	0.251* (0.082)	0.209* (0.065)	0.189* (0.063)	0.038 (0.055)	-0.400* (0.079)	-0.348* (0.086)	-0.608* (0.090)
Manag.	0.370* (0.083)	0.353* (0.070)	0.200 (0.091)	0.206* (0.065)	0.274* (0.061)	-0.026 (0.059)	-0.218 (0.088)	-0.399* (0.099)	-0.760* (0.101)
Trad.	0.683* (0.146)	0.301 (0.141)	0.283 (0.180)	0.119 (0.142)	0.010 (0.135)	0.065 (0.121)	-0.172 (0.189)	-0.572* (0.170)	-0.717* (0.194)
Fin.Ser.	0.487* (0.057)	0.212* (0.052)	0.204* (0.052)	0.248* (0.052)	0.204* (0.048)	0.030 (0.049)	-0.325* (0.059)	-0.394* (0.062)	-0.664* (0.067)
Non.Ser.	0.546* (0.100)	0.306* (0.088)	0.380* (0.089)	0.185 (0.084)	0.167 (0.079)	0.046 (0.081)	-0.491* (0.104)	-0.491* (0.116)	-0.648* (0.122)

Notes. Mean investment propensity (subject-level demeaned data) for the nine return distributions separated by participants' occupations. Return distributions are sorted in descending order of the mean propensity to invest in the pooled data. Shadings indicate the magnitude of effect sizes. m_2 , m_3 , and m_4 denote standard deviation, skewness, and kurtosis, respectively. Standard errors clustered on the individual level are reported in parentheses. Acc., Accounting, Controlling, or Compliance ($n = 392$); Con., Advisory Services or Consulting ($n = 118$); Anal., Analysis, Research, or Valuation ($n = 112$); Port., Fund or Portfolio Management ($n = 71$); Admin., Office Administration, Human Resources, or IT ($n = 297$); Invest., Investment Banking or Investment Services ($n = 137$); Priv., Private Banking or Wealth Management ($n = 80$); Risk, Risk Management, Treasury, or Financial Planning ($n = 116$); Sales, Sales ($n = 192$); Manag., Top- or Middle Management ($n = 177$); Trad., Trading or Brokerage ($n = 55$); Fin.Ser., Other Finance-Related Services ($n = 364$); Non.Ser., Other Non-Finance-Related Services ($n = 108$).

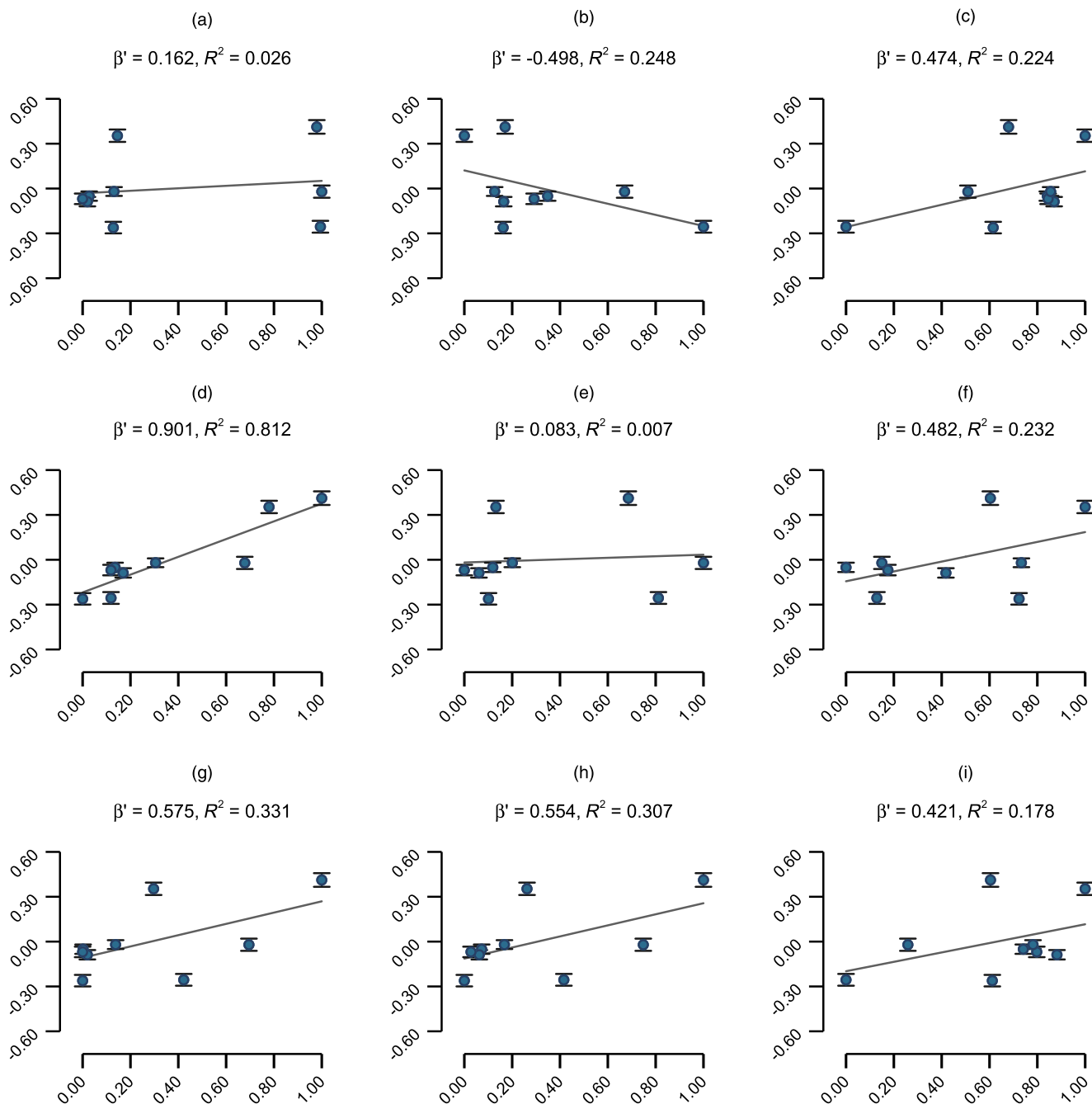
* $p < 0.005$ (based on one-sample t -tests for a test size $\mu_0 = 0$).

Figure D.8. (Color online) Effects of Variations in Higher Moments on Investment Propensity Separated by Occupations



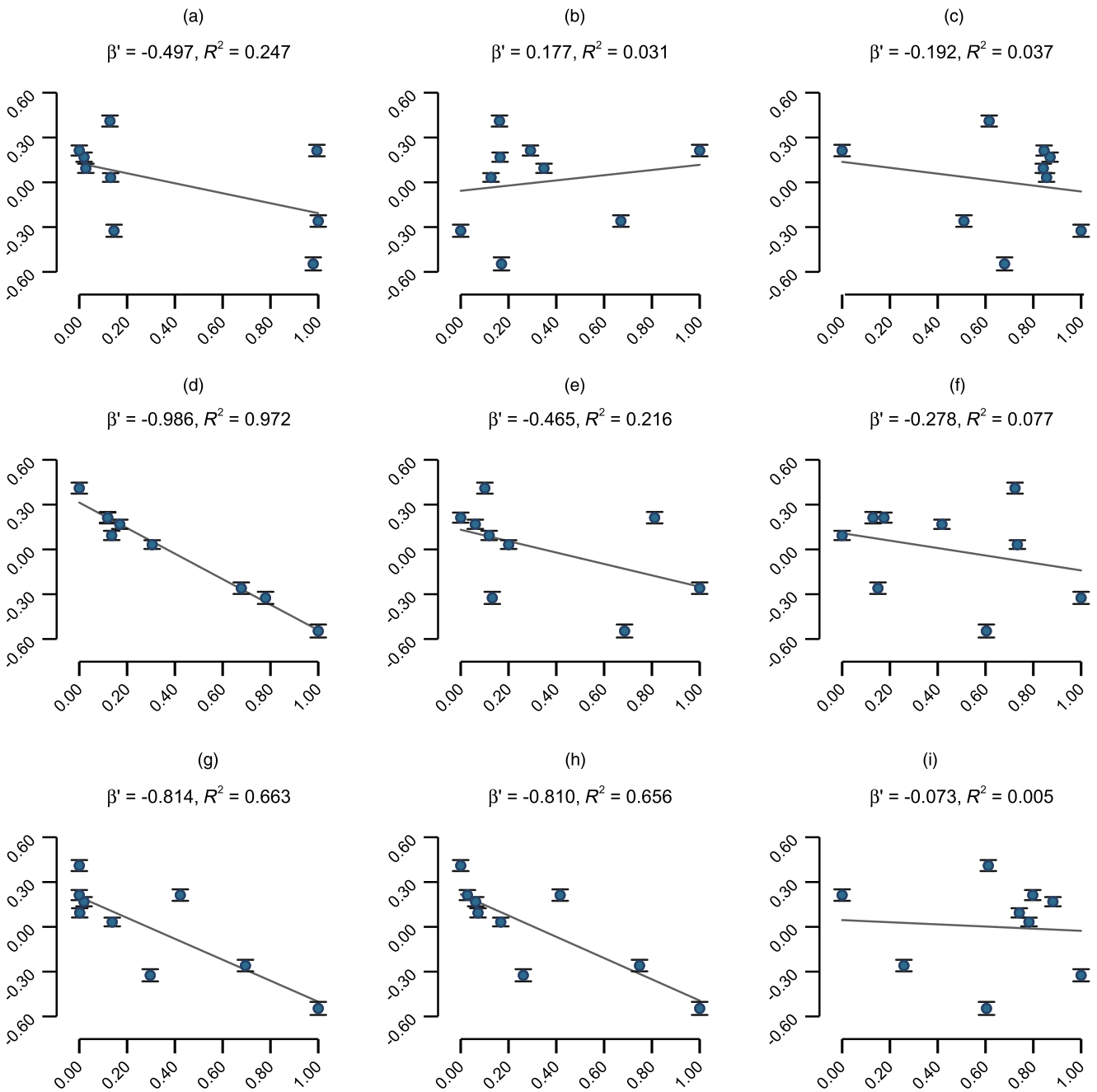
Notes. Mean effects of systematic variations in the return distributions' higher moments (standard deviation, skewness, and kurtosis) on subject-level demeaned investment propensity. The effects correspond to coefficients of dichotomous explanatory variables in an ordinary least squares regression (controlling for interaction effects). m_2 : 1 if standard deviation = 32.0%, 0 if standard deviation = 16.0%; m_3^- : 1 if skewness = -1.0, 0 if skewness = 0; m_3^+ : 1 if skewness = +1.0, 0 if skewness = 0; m_4 : 1 if kurtosis = 10.8, 0 if kurtosis = 3.0. Error bars denote 99.5% confidence intervals based on standard errors clustered on the individual level. Acc., Accounting, Controlling, or Compliance ($n = 392$); Con., Advisory Services or Consulting ($n = 118$); Anal., Analysis, Research, or Valuation ($n = 112$); Port., Fund or Portfolio Management ($n = 71$); Admin., Office Administration, Human Resources, or IT ($n = 297$); Invest., Investment Banking or Investment Services ($n = 137$); Priv., Private Banking or Wealth Management ($n = 80$); Risk, Risk Management, Treasury, or Financial Planning ($n = 116$); Sales, Sales ($n = 192$); Manag., Top- or Middle Management ($n = 177$); Trad., Trading or Brokerage ($n = 55$); Fin.Ser., Other Finance-Related Services ($n = 364$); Non.Ser., Other Non-Finance-Related Services ($n = 108$).

Figure D.9. (Color online) Regressions of Mean Perceived Riskiness on Nine Different Compound Risk Measures



Notes. Mean perceived riskiness of each of the return distributions regressed on nine different compound risk measures (pooled data). CPT refers to Cumulative Prospect Theory and is based on the following parameterization: $\alpha = \beta = 0.88$, $\lambda = 2.25$, $\gamma = 0.61$, and $\delta = 0.69$. The vertical axis depicts participants' mean perception of risk associated with the nine return distributions; the horizontal axis depicts the particular compound risk measure, normalized to values between 0.0 and 1.0. Error bars denote 99.5% confidence intervals. β' and R^2 denote the corresponding standardized regression coefficient (equivalent to the Pearson correlation coefficient ρ) and the regressions' R^2 , respectively. (a) Absolute deviation. (b) Lower semivariance. (c) Expected value of loss. (d) Probability of loss. (e) Interquartile range. (f) Maximum loss. (g) The 90% value-at-risk. (h) The 95% value-at-risk. (i) CPT value.

Figure D.10. (Color online) Regressions of mean investment propensity on nine different compound risk measures.



Notes. Mean investment propensity of each of the return distributions regressed on nine different compound risk measures (pooled data). CPT refers to Cumulative Prospect Theory and is based on the following parametrization: $\alpha = \beta = 0.88$, $\lambda = 2.25$, $\gamma = 0.61$, and $\delta = 0.69$. The vertical axis depicts participants' mean propensity to invest in the nine return distributions; the horizontal axis depicts the particular compound risk measure, normalized to values between 0.0 and 1.0. Error bars denote 99.5% confidence intervals. β' and R^2 denote the corresponding standardized regression coefficient (equivalent to the Pearson correlation coefficient ρ) and the regressions' R_2 , respectively. (a) Absolute deviation. (b) Lower semivariance. (c) Expected value of loss. (d) Probability of loss. (e) Interquartile range. (f) Maximum loss. (g) The 90% value-at-risk. (h) The 95% value-at-risk. (i) CPT value.

Endnotes

¹ The instructions have been translated into the official language for each country by a professional translation agency. The experiment has been conducted in Portuguese (Brazil), Mandarin (China), German (Germany), English (India, the United Kingdom, the United States, and South Africa), Japanese (Japan), and Russian (Russia). For further details on the translation process and the English version of the instructions, see Appendix A.

² Participants were only directed to the “financial professionals” treatment of our experiment if both their occupational information stored in their user’s account and their answers in the prescreening indicated that they are currently employed in the finance industry. Similarly, respondents were only passed on to the “laypeople” treatment of our survey if their response to the prescreening survey had been concordant with the information stored on the agency’s behalf, indicating that they do *not* work in the finance or insurance sector. Because of technical reasons, the implementation of a prescreening survey was impractical on the platforms of the partnered research agencies in Russia and South Africa. For these two countries, participants were forwarded to our survey platform only based on the occupational information available through the user’s account data, which is typically gathered during the sign-up procedures on the platform.

³ Based on data provided by the market research agency, the share of participants who completed but failed the initial screening (in the seven countries in which the prescreening was implemented) varied between 5.5% (Japan) and 28.6% (India); the mean across the seven countries was 12.6%. Please note that even higher numbers of exclusions in the prescreening process do not imply any deficiencies in data quality: Participants may simply have changed the industry in which they are working since the last survey they completed.

⁴ Note that the systematic variations of higher moments as described above would give rise to a $2 \times 3 \times 2$ design, implying 12 different return distributions. To avoid fatigue or boredom given the repetitive nature of our experiment and to keep the overall time requirement for our online experiment at reasonable levels, we chose to reduce the number of return distributions to nine. In particular, we decided not to include the return distributions with high standard deviation and excess kurtosis for the three levels of skewness, because the simulations of returns with these properties turned out to result in highly artificial distribution shapes.

⁵ Note that histograms are a commonly used way to communicate (return) distributions. Many other display formats (e.g., μ - σ -representations) come with the important shortcoming of only displaying certain properties of the distribution. Histograms have also been used frequently in previous research on subjects’ risk perception, and, thus, our paper can be seen in line of this strand of research (see, e.g., Lopes 1987, Goldstein et al. 2008, Kaufmann et al. 2013, and Bradbury et al. 2015). Yet, a downside of using histograms in our experiment is that inferring statistical properties of the distribution from graphical illustrations is a nontrivial task. We therefore discuss potential limitations of our findings due to the way of how return distributions are displayed in a separate section after presenting our results.

⁶ Although there are some papers reporting other findings with respect to positive and negative skewness, our result are consistent with findings about decision makers’ aversion to negative outcomes (likelihood of a loss). This result will be discussed in detail in the section on Compound Risk Measures.

⁷ As an illustration, let us assume that an investor’s risk perception is only affected by an asset’s loss probability (which is one of the key findings of our study). Suppose there are two investment alternatives: Asset A yields $-\$5$ in 25% of the cases and $\$10$ otherwise; asset B yields $-\$8$ with 25% probability and $\$11$ otherwise. If loss probability is the only measure associated with financial risk, the investor

will perceive assets A and B equally risky, although the standard deviation of asset B is higher than the standard deviation of asset A (note that the expected return, skewness, and kurtosis are identical for A and B). Yet, the likelihood of whether to invest may depend on the assessment of monetary outcomes. For example, if an investor faces a decreasing (increasing) marginal utility of money (here, we explicitly refrain from using “risk aversion” as a label for the shape of the utility function), he will likely prefer asset A (B).

⁸ Note that this result suggests that the effects of skewness on perceived riskiness and investment propensity are primarily attributable to its effect on loss probability. In order to examine whether skewness has an additional effect beyond that, we regress mean (subject-level demeaned) risk perception on the distributions’ probability of loss and two dummy variables indicating positive and negative skewness, respectively, for the finance professionals and general population sample. Notably, the two indicator variables for skewness are statistically insignificant for both samples. Moreover, comparing the adjusted R^2 values of the models with and without skewness indicators suggests that the reduced number of degrees of freedom outweighs the additional explanatory power from adding covariates to the model: For the finance professionals’ sample, the adjusted (adj.) R^2 is reduced by 1.11 percentage points (p.p.; a 1.3% decrease); for the general population sample, the adj. R^2 increases by 0.75 p.p. (a 0.9% increase). Repeating the procedure for investment propensity (i.e., replacing the dependent variable in the models outlined above) corroborates this claim: The adj. R^2 drops by 0.53 and 1.59 p.p. for the finance professionals and general population sample, respectively. The insignificant coefficients of the skewness indicators and the very small changes in R^2 suggest that there is no economically relevant lever through which risk perception and investment propensity are affected by skewness, beyond its impact on loss probability.

References

- Alevy JE, Haigh MS, List JA (2007) Information cascades: Evidence from a field experiment with financial market professionals. *J. Finance* 62(1):151–180.
- Bali TG, Cakici N, Whitelaw RF (2011) Maxing out: Stocks as lotteries and the crosssection of expected returns. *J. Financial Econom.* 99(2):427–446.
- Bell DE (1995) Risk, return, and utility. *Management Sci.* 41(1):23–30.
- Benjamin DJ, Berger JO, Johannesson M, Nosek BA, Wagenmakers E-J, Berk R, Bollen KA, et al. (2018) Redefine statistical significance. *Nature Human Behav.* 2:6–10.
- Bontempo R, Bottom W, Weber EU (1997) Cross-cultural differences in risk perception: A model-based approach. *Risk Anal.* 17(4): 479–488.
- Boyer B, Mitton T, Vorkink K (2010) Expected idiosyncratic skewness. *Rev. Financial Stud.* 23(1):169–202.
- Brachinger HW, Weber M (1997) Risk as a primitive: A survey of measures of perceived risk. *Oper. Res. Spektrum* 19(4):235–250.
- Bradbury MA, Hens T, Zeisberger S (2015) Improving investment decisions with simulated experience. *Rev. Finance* 19(3):1019–1052.
- Brealey RA, Myers SC, Allen F (2017) *Principles of Corporate Finance*, 12th ed. (McGraw-Hill Education, New York).
- Chen DL, Schonger M, Wickens C (2016) oTree—An open-source platform for laboratory, online, and field experiments. *J. Behav. Experiment. Finance* 9:88–97.
- Cipriani M, Guarino A (2009) Herd behavior in financial markets: An experiment with financial market professionals. *J. Eur. Econom. Assoc.* 7(1):206–233.
- Cohn A, Fehr E, Maréchal M (2014) Business culture and dishonesty in the banking industry. *Nature* 516:86–89.
- Conrad J, Dittmar RF, Ghysels E (2013) Ex ante skewness and expected stock returns. *J. Finance* 68(1):85–124.

- Dhami S (2016) *The Foundations of Behavioral Economic Analysis* (Oxford University Press, Oxford, UK).
- Diecidue E, Van De Ven J (2008) Aspiration level, probability of success and failure, and expected utility. *Internat. Econom. Rev.* 49(2):683–700.
- Dyer JS, Sarin RK (1982) Relative risk aversion. *Management Sci.* 28(8):875–886.
- Ebert S (2015) On skewed risks in economic models and experiments. *J. Econom. Behav. Organ.* 112:85–97.
- Ebert S, Wiesen D (2011) Testing for prudence and skewness seeking. *Management Sci.* 57(7):1334–1349.
- Fishburn PC (1984) Foundations of risk measurement. I. Risk as probable loss. *Management Sci.* 30(4):396–406.
- Gennaioli N, Shleifer A, Vishny R (2015) Money doctors. *J. Finance* 70(1):91–114.
- Ghysels E, Santa-Clara P, Valkanov R (2005) There is a risk-return trade-off after all. *J. Financial Econom.* 76(3):509–548.
- Glaser M, Iliewa Z, Weber M (2019) Thinking about prices vs. thinking about returns in financial markets. *J. Finance* 74(6):2997–3039.
- Gloede O, Menkhoff L (2014) Financial professionals' overconfidence: Is it experience, function, or attitude? *Eur. Financial Management* 20(2):236–269.
- Goldstein D, Johnson E, Sharpe W (2008) Choosing outcomes vs. choosing products: Consumer-focused retirement investment advice. *J. Consumer Res.* 35:440–456.
- Huber J, Palan S, Zeisberger S (2017) Does investor risk perception drive asset prices in markets? Experimental evidence. *J. Banking Finance* 108:105635.
- Kahneman D (2011) *Thinking, Fast and Slow* (Farrar, Straus and Giroux, New York).
- Kaufmann C, Weber M, Haisley E (2013) The role of experience sampling and graphical displays on one's investment risk appetite. *Management Sci.* 59(2):323–340.
- Kaustia M, Alho E, Puttonen V (2008) How much does expertise reduce behavioral biases? The case of anchoring effects in stock return estimates. *Financial Management* 37(3):391–412.
- Keller LR, Sarin R, Weber M (1986) Empirical investigation of some properties of the perceived riskiness of gambles. *Organ. Behav. Human Decision Processes* 38(1):114–130.
- Kirchler M, Lindner F, Weitzel U (2018) Rankings and risk-taking in the finance industry. *J. Finance* 73(5):2271–2302.
- Klos A, Weber EU, Weber M (2005) Investment decisions and time horizon: Risk perception and risk behavior in repeated gambles. *Management Sci.* 51(12):1777–1790.
- Levy H, Levy M (2009) The safety first expected utility model: Experimental evidence and economic implications. *J. Banking Finance* 33(2):1494–1506.
- Lintner J (1965) The valuation of risk assets and the selection of risky investments in stock portfolios and capital budgets. *Rev. Econom. Statist.* 47(1):13–37.
- Loewenstein GF, Weber EU, Hsee CK, Welch N (2001) Risk as feelings. *Psych. Bull.* 127(2):267–286.
- Lopes L (1987) Between hope and fear: The psychology of risk. *Adv. Experiment. Soc. Psych.* 20:255–295.
- Markowitz H (1952) Portfolio selection. *J. Finance* 7(1):77–91.
- Mossin J (1966) Equilibrium in a capital asset market. *Econometrica* 34(4):768–783.
- Nosić A, Weber M (2010) How riskily do I invest? The role of risk attitudes, risk perceptions, and overconfidence. *Decision Anal.* 7(3):282–301.
- Novemsky N, Kahneman D (2005) The boundaries of loss aversion. *J. Marketing Res.* 42(2):119–128.
- Puetz A, Ruenzi S (2011) Overconfidence among professional investors: Evidence from mutual fund managers. *J. Bus. Finance Accounting* 38(5–6):684–712.
- Sachse K, Jungermann H, Belting JM (2012) Investment risk—The perspective of individual investors. *J. Econom. Psych.* 33(3):437–447.
- Sharpe WF (1964) Capital asset prices: A theory of market equilibrium under conditions of risk. *J. Finance* 19(3):425–442.
- Slovic P (1987) Perception of risk. *Science* 236(4799):280–285.
- Slovic P, Finucane ML, Peters E, MacGregor DG (2004) Risk as analysis and risk as feelings: Some thoughts about affect, reason, risk, and rationality. *Risk Anal.* 24(2):311–322.
- Tversky A, Kahneman D (1992) Advances in prospect theory: Cumulative representation of uncertainty. *J. Risk Uncertainty* 5(4):297–323.
- Unser M (2000) Lower partial moments as measures of perceived risk: An experimental study. *J. Econom. Psych.* 21(3):253–280.
- Veld C, Veld-Merkoulova YV (2008) The risk perceptions of individual investors. *J. Econom. Psych.* 29(2):226–252.
- Vernimmen P, Quiry P, Dalocchio M, Le Fur Y, Salvi A (2014) *Corporate Finance: Theory and Practice*, 4th ed. (John Wiley & Sons, West Sussex, UK).
- Weber EU, Bottom WP (1989) Axiomatic measures of perceived risk: Some tests and extensions. *J. Behav. Decision Making* 2(2):113–131.
- Weber EU, Hsee C (1998) Cross-cultural differences in risk perception, but cross-cultural similarities in attitudes toward perceived risk. *Management Sci.* 44(9):1205–1217.
- Weber EU, Milliman RA (1997) Perceived risk attitudes: Relating risk perception to risky choice. *Management Sci.* 43(2):123–144.
- Weber M, Weber EU, Nosić A (2013) Who takes risks when and why: Determinants of changes in investor risk-taking. *Rev. Finance* 17(3):847–883.
- Zeisberger S (2018) What is risk? How investors perceive risk in return distributions. Working paper, Radboud University, Nijmegen, Netherlands.