Mood and Investment Decision-Making: An Experimental Study

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Abstract: Investment decision-making involves strategic decisions that have a long-term impact and that can affect a significant amount of funds. Investment decision-making also involves risk. The aim of this experimental study is to determine whether the moods of prospective investors have an effect on their decision making. Using final-semester students who have taken the financial statement analysis course as the subjects, this study determines whether any changes in decisions occur in conjunction with the transformation of the subject's mood. Several previous studies have studied the influence of financial report framing on investment decisions. In contrast to previous research, however, this study pays more attention to the subjects who make the decisions. The results of this study show that, in a business situation with the same prospects, an investor with a positive mood will have the desire to make larger investments, compared to an investor who is in a negative mood. In this way, it can be proven that mood is related to investment decisions. This study also shows that gender (masculine vs. feminine) does not have a moderating effect on the relationship between mood and investment decision.

1 INTRODUCTION

Investment decision-making is very risky and requires a lot of funds. Accuracy in investment decision-making has a long-term impact and involves considerable value for money. Some of the major cases where investment decisions have failed have proved the magnitude of the impact on the company. In contrast to previous research, this study focuses more on the effect that the conditions the subject (or decision maker) experiences can affect the decisions they make. There have been various investigations into the level of courage a decision maker has. Some test the influence had by differences in financial report framing on the results of investment decisions (Powell and Ansic, 1997; Sandeep et al., 2012). Unlike previous research, however, this study examines how the conditions experienced by the subject (the decision maker) can affect the decision he or she makes.

This study only considers whether a happy mood may have an impact by causing greater optimism, which further affects the determination of higher investment rates. However, this study's aim is to prove whether a feeling of optimism when making decisions can be caused by an antecedent that has created a happy mood. Regardless of the accuracy of the decisions, this research has proved that a happy atmosphere can affect the magnitude of investment decisions; this proof could inspire further research to prove the effect of mood on accuracy in decision making.

There are other studies that have also proved that happiness is a requirement for people to work hard and thereby become successful. Happiness can bring an optimistic feeling, release stress, achieve a goal more aggressively and face a situation more calmly. Conditions of happiness can be a driving force that will cause someone to work harder in order to achieve success.

The empirical evidence suggests that this is not the case, however. Indeed, a number of researchers and thinkers have argued that the ability to be happy and contented with life is a central criterion for the ability to adapt and for positive mental health (Diener, 1984; Jahoda, 1958; Taylor and Brown, 1988).

The experimental designs used in this study, in addition to showing the main effect of causal relationships between happiness and the value of investment decisions, can also simultaneously see

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the effect of gender on the link between the variable happiness and the value of the investments.

2 LITERATURE REVIEW

2.1 Happiness

Psychology literature contains no universal definition of happiness. Happiness is a subjective condition felt by someone who is experiencing satisfaction with life, contentment and wellbeing (Ryan and Deci, 2001). According to Kahneman (1999), in order to know whether someone is happy or not, they should be cognitively evaluated. This means that, in order to determine whether someone is in a happy condition or not, this needs to be self-determined by the subject.

2.2 Optimism

Various research in the literature states that happiness fosters optimism. Circular conditions can occur where, in the end, optimism will also result in success and will ultimately return and impact on levels of happiness.

Optimism or positive thinking is the key to success and happiness. Research has also shown that positive thinking can reduce the pressure of increasing emotional wellbeing and cardiovascular health (Wellner and Adox, 2000).

Optimism is how someone reacts to social failure in their life (Myers, 2008). A stressful situation experienced by an individual can result in a loss of willingness to make an effort. The existence of optimism can change the negative feeling in order to achieve maximum results. According to McGinnis (1995) people who are optimistic have 12 defining characteristics, as follows:

1. Optimistic people are rarely surprised by difficulty.
2. Optimistic people look to problem-solve.
3. Optimists feel confident that they have control over their futures.
4. Optimistic people give regular updates.
5. Optimistic people put a stop to their negative thoughts.
6. Optimism increases the power of appreciation.
7. Optimists use their imagination to train for success.
8. Optimists are always happy, even when they do not feel happy.
9. Optimists feel confident that they have an almost unlimited ability to extend themselves.
10. Optimists foster lots of love in their lives.
11. Optimists like to exchange good news.
12. Optimists accept what cannot be changed.

Optimistic individuals will tend to be confident about their decisions and in their abilities. Chang (2002) defines optimism as an individual expectation of good things. In other words, optimists are individuals who expect good events to happen in their future lives.

Scheier and Carver (2002) state that optimism is the dispositional tendency of individuals to have positive expectations overall, even though they may face misfortune or difficulties in life.

Optimism is an attitude of always having good expectations of everything and the tendency to expect a pleasant outcome. In other words, optimism is a way of thinking or a paradigm of positive thinking (Carver and Scheier, 1993).

Scheier and Carter also state that an optimist is a person who has good expectations of their future lives. Their futures include positive goals and expectations that cover all aspects of life (as cited in Snyder, 2002).

2.3 Gender

Gender is theoretically different from biological sex in how it distinguishes between men and women. In this study, gender measurement is conducted using a traditional concept. This concept measures gender on a continuum, going from “very masculine” up to “very feminine.”

Gender concepts have evolved. The gender dimension now not only splits issues into a masculine vs. feminine dichotomy; rather, each continuum can also be separated into stages between “very masculine” and “not very masculine”. However, there are no degrees to feminine measurement at all, until “very feminine”.

Considering the simplicity and focus of this research (in that it only considers aspects of behavioral research in accounting) it uses a traditional measurement of gender. This only considers the traits of masculine versus feminine behavior, comparing “very masculine” conditions to those that are “very feminine”.

3 RESEARCH METHODOLOGY

This study used an two-by-two between-subjects experimental design, using the final-year students as research subjects. Student subjects were used because this study measures variables that have transferable properties. Students and investors will actually behave similarly when they receive equal treatment. This condition means that the students, as subjects, can stand in for investors. Additionally, the experience factor is controlled during this research.

The focus of the observations in this study is the feeling of happiness itself. Thus, the study tests happiness's influence on the amount of investments made by the subject. In order to create two groups to act as a treatment group and control group, the 24 subjects were randomly separated by filling out the questionnaires, answering items that asked them about their moods.

The establishment of groups of subjects who had happy and unhappy moods was achieved through these questionnaires. The questionnaire contained a choice of statements to be filled by the selected subjects according to their mood. Option 1 means the respondents are happy, while option 2 means that they are unhappy. Subsequently, subjects who identified as being happy were asked to enter a particular room (Room A), while those subjects who identified as being unhappy were asked to enter another room (Room B). Subject groups in both rooms were then assigned the same investment decision-making task, with the same data. The only difference was in the subjects' moods.

3.1 Variable Measurement

3.1.1 Mood

Mood is measured by identifying the psychological nature of the subject (i.e., whether they are happy or unhappy. By enabling self-assessment through the use of a single-item scale (the question: "Are you generally happy right now?") the subject's answer can be measured on a scale of 0 to 10.

According to Kahneman (1999) in order to ascertain whether someone is happy or not a cognitive evaluation is necessary. In other words, if we wish to determine whether a person is in a happy condition or not, their answer needs to be self-determined. The validity of using this single-scale measurement has been studied by Abdel (2006), who states that: "[a] single item [scale] had a good convergent validity because it was highly and positively correlated with optimism, hope, self esteem, positive effect, extraversion, and self ratings of both physical and mental health. Single scale is reliable, valid, and viable in community surveys as well as in cross-cultural comparison."

3.1.2 Gender

In this study, gender measurement uses a traditional concept that measures gender on a very masculine continuum, going up to "very feminine". Using the question instrument that identifies characteristics from "very masculine" to "very feminine", subjects will be identified according to their gender status.

Gender measurements in this study still use the gender role identity. This concept refers to the comparison of characteristics according to gender-related social norms and gender-related characteristics. This concept was originally developed by Kagan (1964).

3.1.3 Investment Decisions

The investment decisions were measured using a question instrument that consisted of several investment decisions ranging from Rp. 1 Billion to Rp. 10 Billion, thus indicating the boldness of the investment made by the subject.

4 RESULTS

4.1 Descriptive Statistics

Table 1: Descriptive Statistics

Mood	Gender	Mean	Std. Deviation	N
Happy	2.20	7.0000	.	1
	2.40	9.0000	.	1
	2.60	8.0000	.	1
	3.00	8.6667	2.30940	3
	3.20	9.5000	.70711	2
	3.60	7.0000	1.41421	2
	3.80	10.0000	.00000	2
	Total	8.5833	1.56428	12
Unhappy	2.40	5.0000	.	1
	2.80	8.0000	.	1

3.00	5.0000	2.82843	2
3.20	5.0000	.	1
3.40	1.0000	.	1
3.60	4.0000	2.64575	3
3.80	7.0000	.	1
4.20	6.0000	1.41421	2
Total	5.0000	2.29624	12

Table 2: Levene's Test

F	df1	df2	Sig.
3.382	14	9	.036

Levene's test addresses the null hypothesis that the error variance of the dependent variable is equal across groups.

a. Design: Intercept + Kelompok + Gender + Kelompok * Gender

Table 3: Examination of the Subject Effect
Dependent Variable: Investment

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared	Noncent. Parameter
Corrected Model	124.792[a]	14	8.914	2.158	.124	.771	30.219
Intercept	825.756	1	825.756	199.959	.000	.957	199.959
Mood	49.504	1	49.504	11.988	.007	.571	11.988
Gender	47.068	9	5.230	1.266	.365	.559	11.398
Mood * Gender	1.284	4	.321	.078	.987	.033	.311
Error	37.167	9	4.130				
Total	1269.000	24					
Corrected Total	161.958	23					

a. R Squared = .771 (Adjusted R-squared = .414)

b. Computed using alpha = .05

By using an error rate of 5%, Table 3 shows a significant difference in the level of significance, with a 0.007 increase on the investment value score given by the group of happy subjects, compared to that given by the group of unhappy subjects. This means that mood differences affect the value of the investment made by the subject.

However, gender differences (masculine vs. feminine) do not affect the strength of the relationship between mood and the value of the investment made by the subject.

5 CONCLUSIONS

The results show that happy subjects tend to make higher-value investment decisions than subjects who are in unhappy moods. From these results, it can be concluded that mood affects the size of the investment made by the individual.

The implications of this study provide an insight into the concept that investment decisions are influenced by a person's emotional changes. This indicates the importance of an investor's mental state when making an investment decision. Although this study does not look at the end result of the investment, the influence of an individual's mental state on their decision making has been proven in this study.

Interaction effect testing shows there is no moderate effect of gender on the strength of the relationship between mood and the value of the investment made. Thus, it can be concluded that gender characteristics do not affect the strength of the relationship that exists between mood and the value of the investment made by the subject. Subjects that show feminine and masculine gender characteristics still experience a significant influence that is not different in strength.

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