CAN RISK AVERSE HOUSEHOLDS MAKE RISKY INVESTMENTS? THE ROLE OF TRUST IN OTHERS

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Outline

Objectives of the paper

- The paper contributes to the literature on the determinats of finacial risk-taking
- It analyses the relationship between investor's financial risk attitude and their trust in others and shed light on the role that these attitudes jointly play in accounting for the heterogeity in inverstors' portfolio decisions.
- The focus, in particular, is on the decision to to buy stock, bonds and mutual funds.

Strength points

- Cross country comparative approach to isolate cultural differences and other country-specific determinants of portfolio choices
- Risk attitude measured in the financial domain
- Investigation of the interaction between financial risk attitude and trust in people that the individual does not personally know. Previous literature has already shown their relevance in investment decisions, but not joinly.

Main findings

Risky assets investments are:

- more frequent in presence of risk tolerance and high levels of trust
- uncorrelated with trust when households are risk tolerant
- positively correlated with trust when households are risk averse

Hence, trust acts as a substitute for risk tolerance.

Question 1

- It seems to me that also trust (not only risk-aversion) can be highly dependent on the specific domain in which it is elicited. It would be nice to have the trust measured in the financial domain anche check how it correlates with general trust in people.
- Do you know whether the individual has bought risky assets directly or if, instead, she turned to financial intermediaries? In this latter case, isn't that trust in the intermediaries also matters?

  Calcagno et al. (2016) find that investors with low levels of trust seek financial counseling, but make their decisions autonomously. Within this subgroup of investors, those with high self-assessed financial competence are more likely to control the quality of the advice.

Question 2

- How trust and risk attitude correlate with financial literacy? Maybe you can exploit the SHARE wave 5 question about compound interest rate:
  CF015-Savings: Let's say you have 2000 euro in a savings account. The account earns ten per cent interest each year. How much would you have in the account at the end of two years?
  and perhaps rely also on the other questions about numeracy.

Question 3

- What about gender differences?
- What is the percentage of risk averse and willing to trust individuals by gender? My guess is that it is higher among females because of the specialization of roles (explored wrt FL in Bucher-Koenen et al. 2016).
- Can you include the interaction between trust*risk aversion and gender in your regressions? Or split the sample by gender?

Question 4

- Did you try to run country specific regressions? Can it be that trust acts as a substitute for risk taking in some countries and as a complement of it in some others?