

Positive Emotions and Investment Decisions: A Conceptual Exploration

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ABSTRACT

Investment decision making is a crucial step to be taken by every individual on a regular basis, whether it's short term or long term, for consumption or for saving purposes but require the least bit of knowledge about financial terms. On the other hand, there are many factors which directly or indirectly affect our decision making and emotional factors are one of them. Emotions can be used as accurate appraisal and expression of internal feelings to motivate, better planning, consistent practices and achieve the financial goals. Emotions not only affect our mental ability, but also the physical activities which defines the overall personality of the individual, emotions can be of different types, but we mostly know positive and negative which is the reflection of our beliefs and values and result into our decision. This paper will start with the explanation of investment decision making and how investment decisions can change with the effect of positive emotion. Based on the literature, it was found that positive emotions are positively related to the investment decision making and person with positive emotion and attitude take wise and better financial decision. With the calm mind and positive emotions people can think better and it reflected in their financial decisions.

Keyword: *Positive emotion, Investment decision, psychological ability, mood*

INTRODUCTION

Investment decision is the simple sacrifice of present resources for the benefit of future needs, which is the cut down on present consumption and saving the available financial resources in the expectation of a better future and hope to face any uncertainty and unexpected situation. Investment decision is the appropriate combination of risk and return according to the future of need of investor, forecasting the uncertainty, available finance, and financial behavior of the investor. Risk factor impacts the investment decision of the individual and

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sometimes changes the investment options (Aren and Zengin, 2016), in their study they conducted the survey on 94 respondents to check the effect of financial literacy and risk perception which shows that financial literacy and risk perception both impacts the investment decision making of the individual. Aren and Ayedmir (2015) tried to find out different factors affecting investment decisions, and findings shown the availability of different alternatives and selection on the basis of their risk and return factor impact their investment decision. They have taken foreign currency, bonds, stock, mutual funds, and bank

deposits as available alternatives to check the criteria of selection of investment and it was found that more risky securities were preferred by individuals with high financial knowledge. Prasad et al. (2014) said that Indian women are more emotional in nature and they attach their emotions to their investment decisions as well, which sometime ignore the logical and practical approach, but it increases the consistency of investment into limited securities which increases the loyalty towards the company and security and provide a secure return in the long term. Shahrabani (2012) said that people with positive emotions take better decisions by adopting a budget making, control over spending, and investing the money saved from income after consumption. Positive emotions help in getting more information regarding the investment options and which helps in managing money, learn financial skills, reduce the amount of debt, reduce the anxiety and stress.

People enjoy the financial decision making with a positive attitude rather than regretting the wrong decision due to lack of information or awareness. Vanishree (2016) said that women are more emotional intelligence and they assess the financial decision in their own way which is different than how men take a financial decision, they have their own parameters to check and select the best option. Dhingra said that emotions are the reaction of our thought process and our analyzing power how we think and how we interpret the available information is completely depends on our emotional state whether its positive or negative. He has mentioned a few positive factors which enhance the investment decisions such as self-awareness, soft-skill, knowledge, empathy, and leadership skill to handle the unexpected situation and support others as well. Baba et al. (2005) said that The respondents who take decisions on the basis of

emotions found more advantageous than normal respondents. It supports the theoretical basis of risk taking ability. Circumstances, mental stability, mood, and emotions can affect the decisions positively as well as negatively. Barrett (2007) said that emotions can be used for better results as well as worst results, it's just a matter of understanding and pursuing towards the available information and what emotion we experienced at that time.

Handling of emotions depends on human how to use the intense power of emotion, it provides motivation, it provides direction, helps in increasing efforts, and persistence in task is possible. It is similar to emotional intelligence if we carefully and positively use the emotions. Some researchers called it feeling as bias inducer which affects the decisions due to its biased nature and some called it mood congruence recall, an effect which helps to recall the content at the moment person going through a particular feeling or emotional experience. It affects the choice, helps to identify the most important task or decision.

Some researchers relate the emotions with state of mood of the person at a particular time; the mood is simply a replication of consequences, perception, congruent memory, judgement, and self-focused attention in different moods (Morris, 2000). Mood affected by different biological orders such as food habits, physical workout, strength of the immune system. There are some external inducers of mood, such as music, entertainment, and environmental. It is all about the execution of feelings of self. It is reflective in nature through our behavior, consistency, and effort level. It is interchangeable from good to bad or bad to good according to self-focus. The intensity and duration of mood is lesser than emotion or feeling. Fredrickson (2003) revealed

that positive emotions carry the power to increase the quality and duration of life. It was found in the experiment done on nun, which results that the positive emotions affect the psychotherapy and psychopharmacology or both to rescue the mental problems, functionality, physical status, and well-being. It provides broad thinking, creative mind, and motivation to recover from injuries. Kashdan et al. (2015) said that some time people are unable to understand the extreme and intense level of emotions and find difficulty in expressing it in the right way, which results in to struggle with emotion differentiation and sometimes wrong decisions.

Many of the wrong results make people to indulge in bad habits such as smoking, drinking alcohol and even psychological disorder. Understanding and using the right emotion in the right direction is very difficult but important. Dunn et al. (2010) define the emotion as interoceptive accuracy which is an impact of one body organ to another body organ in terms of response. The experience has taken from particular emotion changes or modifies the decision. Emotional experience of human being has relation with the ability. Our experiences help our gut feelings emotionally which sometimes helpful in decision making at different stages of life.

Beukeboom and Semin (2005) define the emotion as mood which is an emotional situation of human behavior which reflects the internal experience of feeling and reacting accordingly. Mood changes the style of passing any type of information in different ways. With happy or positive mood people pass complete and reliable information and content can easily recall by the person but reverse happened in negative mood. With positive mood person able to understand easily and cable to establish the association with the same. Positive mood relates to the general

representation of behavior with meaningful understanding. Strong intensity in positive mood while weak intensity in negative mood. Negative mood related to the style of execution of active and positive mood related with reason of reacting in particular situations. Positive mood is generalized and negative mood is in concentrated form. Callanhan (1988) said emotions are related to the psychological understanding about ethical and moral values. It makes differences between good and bad things for you and for others. Emotions are different types such as love, anxiety, guilt, sadness, empathy, sympathy, hate which can be reflected by people at different point of time and according to the situation. Being emotionally intelligent we understand which emotion expression can make people feel good or bad accordingly we take decisions, react, and behave with others. A person with high IQ does not mean he/she would be able to give empathy to others in their worsttime. Emotions are different type of measurement to take decisions on the basis of feelings, understanding, unbiased, and the gutfeeling of person which experienced by any human being.

Positive emotion and investment decisions

Positive emotions are expressed in the form of love, joy, liveliness, hope, better thought process and future forecasting (Fredrickson, 2003). People with positive emotion, feel good and relax while taking any kind of decision, especially investment, they try to understand different financial concepts and their implementation into their decision making and what different output can occur as a result. Emotions affect the mental state of the individual in terms of memorizing things, judgement ability, analyzing power, and self-control. Emotions can be expressed as the combination of psychological, physiological, cognitive, motivational and experiential aspects

which reflect or came into existence at a particular state of mind or situation come across the individual. A state of mind or the situation experience of the individual can be due to internal or external factors, but very much relevant to the mood of the person. Positivity of emotions helps in doing an act with appropriate purpose, adopt rational thinking process, assess the situation or task effectively and then take decision wisely. Emotions carry the effect of past experiences of the individual. Handling the emotion is quite difficult for individual, especially facing the unexpected situation, it sometimes becomes the disadvantage for people to react immediately and inappropriate way. Positive emotion can be helpful in providing a variety of plans to face the difficult situation. It can improve the cognitive skill to use the different plans raised in the mind and reduce the complexities of difficult tasks. Motivation level gets automatically increase while people adopt positive emotion in their behavior, it helps in skill development, understanding of own and others emotions, identify the strength and weaknesses, and how to control emotions itself at the particular situation (Salovey and Mayer, 1990).

Numeracy is an important factor helps the person to understand the mathematical concept of the investment alternatives. Investors can calculate the maximum and minimum amount which can be a result of investment in the form of profit or loss (Skagerlund et al; 2018). Numeracy (mathematical ability, conceptual clarity, number skills, math anxiety) and math anxiety are the most strongly helpful in predicting the financial literacy. Numeracy plays a mediating role in financial socialization, education quality economics education in financial literacy. Cognitive ability helps to do intuitive calculative decision making in financial decision making. Prasad et al. (2014) consider women as

emotional decision maker in financial matters as well, they observed the investment behavior of the women, which shows that women shows more loyalty to the securities and companies where they invest in the initial period of investment and continue for long irrespective of high profit availability in other options available. With the help of new technology at present investors feel comfort in investing in different securities from any, where on their digital screen like desktop, laptop, tablet and many other things. Technology helps in stress of travelling from one place to another which save time and energy and full attention in investment decision making. Schewabe and Li (2015) relate the, investment decision with the social support of the people surrounding us whether its family, friends, peer group, relatives or colleagues, help in better decision making. Mental support and motivation come from the social networking, which reach the investor in forms of information, experience, guidance, appreciation, suggestions, and sometimes financial support. Generally people understand two types of emotion, happiness and sadness, but a lot more emotions are which we actually use in our daily life activities (Tiedens and Linton, 2001). Positive emotions, improve the assessment power and judgement, skill which enhances the financial decision making of the investor.

Positive emotions and investment benefits

Emotions are relevant to our inner thoughts and beliefs which can be affected by ourselves or internally sometimes from outside or external factors which can be other people, surroundings, place, situation, consequences, and availability and non-availability of different metallic or non-metallic tools. Positive emotions have its own indicators such as love, affection, excitement, self-motivation, enthusiasm, pro-activeness, and

creative mind (Callanhan, 1988). Positive emotions broaden the cognitive skill, thought process and action for unexpected situations. Positive emotion flashes interest to explore more for new things and learn on a continuous basis, new idea generation comes with the positive attitude and liveliness keeps the person to get good mental state and balance physics which affect our actions. "Positive emotion reduces stress, anxiety, aggression, violence, depression and suicide, eating disorders, sexual dysfunction, to a host of stress-related physical disorder" (Fredrickson, 2004). It also helps people to leave and stay away from bad habits like drug addiction, face any kind of phobia, and balance the fear for any type of insecurity. Positive emotion act as fuel to psychological beliefs, increase the intensity of relation of the individual with others which broaden the social networking and social support, triggers the self-motivation which upgrade the standard of living and well-being, improvement in oneself and also the surroundings automatically gets affected by the positive behaviour of the individual.

Conclusion

Positive emotions are more of psychological understanding of the individual which affect the each and every action in their day to day life. Cognitive ability is the reflection of mental state and how the person feels when taking any kind of decision which more or less depends on the emotional level and which emotion experienced more by the individual. Investment decision required knowledge, understanding, expectations, availability of funds and risk tolerance, but to take a wise financial decision a investor should be mentally fit at the time of making the investment decision. Positive emotion helps in keeping cool and calm and to assess the investment option carefully from the available

alternatives according to risk and return criteria. Positive emotion enhances the forecasting capability, predictability, control on spending habits, reduce the anxiety level and increase the awareness and knowledge to get the maximum advantage from investments.

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