THE LONE WOLF OF WALL STREET
THE CONNECTION BETWEEN ISOLATED FINANCIAL DECISION-MAKING AND OVERCONFIDENCE
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Our primary outcome of interest

Our primary independent variable

Our research questions

The Gap

over-confidence

the quality of being too confident; excessive confidence, "you have to guard against overconfidence"

Joint decision-making with someone in your household or with a financial professional

Is there a relationship between sharing investment decision-making and level of overconfidence?
Does that relationship differ by the person with whom you share?

The Studies

Study 1 Survey Data Analysis
- FINRA Investor Survey (n=2,000)

Study 2 (ongoing) Experimental Pilot Study
- Participants are students from the School of Human Ecology at UW-Madison

Study 3 (scheduled) Field Experiment
- Participants will be financial advisors and their clients

The Contribution

Primary Findings
Impact of shared decision-making on the most overconfident investors

- With spouse/someone in household: 8%
- With broker/advisor: 7%

Next Steps
Field experiment: Observed dyadic interaction and its influence on overconfidence

Future Research

Financial decisions other than investments
Characteristics of married households that influence the effectiveness of shared decision-making
Characteristics of client-advisor relationships that influence effectiveness of shared decision-making

Study 1 Findings

Demographics
Regression Results

VARIABLES Nested OLS Probit Marginal Effects
Decision-Making Segments
With someone – no advisor -0.518*** -0.0823***
(0.144) (0.0281)
Self but shared with advisor -0.0606 -0.0717***
(0.100) (0.0191)
With someone and shared with advisor -0.0674 -0.0519**
(0.125) (0.0244)
Self – all advisor -0.404** -0.0698**
(0.159) (0.0322)
With someone – all advisor -0.440*** -0.0872**
(0.163) (0.0350)
Don’t know/Don’t want to say -0.318 -0.0488
(0.462) (0.0625)

Gender
Female 0.269*** 0.0402**
(0.0806) (0.0157)
Ethnicity (non-white) 0.446*** 0.0620***
(0.104) (0.0178)
Education (bachelor’s or higher) -0.642*** -0.0735***
(0.0806) (0.0155)
Married 0.314*** 0.0521***
(0.100) (0.0187)
Household income -0.133** -0.0197*
(0.0601) (0.0115)
Constant 2.915***
(0.334)

Observations 1,973 1,973
R-squared 0.151
Pseudo R-squared 0.1383

Limitations
Causality – endogeneity problem
Single measure for key construct of overconfidence
Sample of investors with accounts beyond 401(k) or IRA

Double-blind design
Teamwork prime
Diverse set of investors
Multiple measures of overconfidence

Pilot and Field Experiments
Study 2 (pilot in progress)
Study 3 (planned field)