Asian Science Bulletin

Open Access Full Text Article

RESEARCH HIGHLIGHTS

Heuristics and Biases: Determinants of Risk, Ambiguity and Uncertainty in Investment Choices

*Nguyen HuuTho**
Phung Thai Minh Trang
Nguyen Van Hoa

School of Management,
University of Economics,
Ho Chi Minh City, Vietnam

Dept. of Accounting & Finance,
Hoa Sen University, Vietnam

School of Management,
University of Economics,
Ho Chi Minh City, Vietnam

*Corresponding Author

ISSN:1813-0070
DOI: 10.21124/asb.2020.57.58

Decision-makers often face risk, uncertainty or ambiguity in the decision-making process that may lead them to cognitive illusions[1] or systematic errors[2]. Risk, uncertainty and ambiguity are employed in investment choices that vary from one another. Risk relates to unknown outcomes and known probability distributions whereas, uncertainty is involved in unknown outcomes and probability distributions.

Ambiguity is characterized as perceived insufficiency of information regarding an uncertain context and it only appears when there is a lack of information[3].

Risk avoidance, ambiguity avoidance and uncertainty avoidance are among the key factors relating to handling risk, ambiguity and uncertainty[4]. The levels of responses to risk, uncertainty and ambiguity also vary from individual to individual. Investors, in general, respond to uncertain situations rather than simply ignore them[5].

There are a large number of studies on personal characteristics such as gender, age, marital status, educational levels and financial knowledge affecting decision making. Researchers conducted a new study in which they hypothesized the facts. They wanted to develop the scales of risk avoidance, ambiguity avoidance and uncertainty avoidance and investigate the relationships between Risk avoidance, ambiguity avoidance and uncertainty avoidance and demographics and investment choices[6].

For this purpose they hypothesized that; Females investors and single investors are more likely to avoid risk, uncertainty and ambiguity than males investors and married investors respectively. Avoidance of risk, uncertainty and ambiguity increases when age, education, participation in investment courses increases.

The key findings of this study showed that Investors were most likely to avoid uncertainty followed by avoiding ambiguity and then avoid risk. Female investors were more likely to avoid risk, ambiguity and uncertainty than male investors. The more participation in investment courses, the higher avoidance of risk, ambiguity and uncertainty and the more the safer investments were chosen.

Investors who were prone to risk, ambiguity, uncertainty-avoiding were more likely to choose a safe investment. The results also met the objectives of this study: developed the scales of avoidance of risk, ambiguity and uncertainty, explored the strong effects of avoidance of risk, ambiguity and uncertainty on investment choices, even after gender, age, marital status, education and investment courses were added. The crux of the matter is these distinctive scales of avoidance of risk, ambiguity and uncertainty can be a useful source for researchers.

REFERENCES

1. Baker, H.K. and J.R. Nofsinger, 2002. Psychological biases of investors. Fin. Serv. Rev., 11: 97-116.

2. Tversky, A. and D. Kahneman, 1974. Judgment under uncertainty: Heuristics and biases. Science, 185: 1124-1131.

3. McLain, D.L., 2009. Evidence of the properties of an ambiguity tolerance measure: The multiple stimulus types ambiguity tolerance scale-II (MSTAT-II). Psychol. Rep., 105: 975-988.

4. Frenkel-Brunswik, E., 1949. Intolerance of ambiguity as an emotional and perceptual personality variable. J. Personality, 18: 108-143.

5. Curley, S.P., J.F. Yates and R.A. Abrams, 1986. Psychological sources of ambiguity avoidance. Organ. Behav. Hum. Decis. Process., 38: 230-256.

6. HuuTho, N., P.T.M. Trang and N.V. Hoa, 2018. Avoidance of risk, ambiguity and uncertainty in investment choices. Asian J. Sci. Res., 11: 522-531.