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STOCK MARKET TRADING: COMPULSIVE GAMBLING AND THE UNDERESTIMATION OF RISK

K. Konstantaras[1,2], A.N. Piperopoulou[3]
[1]Business Administration, Technological Educational Institute of Athens, Athens, [2]Financial Engineering, University of the Aegean, Chios, [3]Psychology, Panteion University of Social and Political Sciences, Athens, Greece

Introduction: Although gamblers and investors have been found to exhibit many common traits, no existing studies associate retail investors with an explicit addictive behavior, or account for the degree of addiction's influence on investors' and gamblers' risk attitude and risk perception.

Objectives: The study explores whether trading in the stock market is a potentially compulsive form of behavior. Furthermore, it explores the psychological risk perception versus economic risk taking of individuals engaged in active stock market trading and those in gambling, for various degrees of addiction.

Aim: The study aims to develop the profile of an addicted retail investor across demographic and risk variables.

Methods: The South Oaks Gambling Screen (Lesieur & Blume, 1987), adapted for stock market trading, the financial part of the Risk Taking Scale and Risk Perception Scale (Weber et al., 2002) and a demographics questionnaire was completed by a sample (582 responses) of active investors, gamblers and a control group in Greece at three distinctive time periods.

Results: Results suggest that retail trading in the stock market exhibits significant incidence of compulsive behavior (11.2%) across diverse stock market environments, probably more for females. The decision to become an active investor or gambler entails greater risk friendliness. Pathologically addicted retail investors underestimate the risk of trading in the stock market. Demographics also play a critical role in risk perception and risk underestimation.

Conclusion: There is an apparent addiction problem between active retail investors that should be taken into account. Psychotherapeutic interventions are discussed.