Investigating the Moderating Effect of Sociability on the Relationship between Risk Perception and Financial Asset

JeongHee Yeo, South Dakota State University[1]

It has been well acknowledged that households' financial assets, considered as risky assets, function as providing financial security in a both short and long term and are mainly used as a source of consumption for the retired. However, the complexity of financial decision process often fails to lead consumers to make appropriate decision in accumulating financial asset. One's perceived risk associated with investment choice is one of the significant factors that determine a level of financial asset. Consumers who perceive a financial choice riskier are less likely to invest their money on financial assets. Consumers' risk perception can be moderated by information related to saving and investment.

Social networks play a role as source of financial information because they are often easily accessible and cost less for exchanging information among members (Chang, 2005). But, the use of social network as a source of financial information varies by socioeconomic status. Based on previous literatures, it is hypothesized that individuals who are actively embedded to social networks have more chances to exchange financial information with members and perceive investment decision less risky.

Purpose

This research focuses on how one's behavioral propensity influences his/her risk perception about financial choices and investment decisions. More specifically, the purpose of the study is to investigate the moderating effect of one's sociability on the relationship between risk perception and the size of financial asset.

<u>Hypotheses</u>

1. The relationship between risk perception and the size of financial asset is stronger for highly sociable individuals.
2. The moderating role of one's sociability in the relationship between risk perception and the size of financial asset is stronger for lower income individuals.

Methodology

This study examined the 2009 Health and Retirement Study (HRS) to examine the role of one's sociability in the relationship between risk perception and the size of financial asset. The HRS is a biennial data that provides detailed financial information on elderly Americans aged 50 and older.

For this study, particular attention is given to the year 2008 HRS because it provides information on several psycho-social variables of interest. Risk perception is measured with 4 items; "How would you rate the risk of the stock of a single company?" A person's sociability is measured with the following 3 items; "How often do you go to a sport, social, or other club?" "How often attend meetings of non-organization, such as political, community, or other interest groups?" "How often do you meet up with any of your friends? (both arranged and chance meeting)

Preliminary Results

Findings from the chi-square analysis show that there is a significant group difference in risk perception (χ^2=11.622, p<.0001) and sociability (χ^2=90.403, p<.0001) by household income quartile. Individuals in the 1st quartile tend to perceive investment decision riskier than those in 4th quartile. As for sociability, wealthier individuals show are more actively participating in social networks than their counterparts. The result of multiple regression analysis did not find significant effect of sociability, as a moderating factor, on the relationship between risk perception and the size of financial assets.

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[1]Assistant Professor, Department of Consumer Sciences, SWG 311 Box 2275A, South Dakota State University, Brookings, SD, Phone: (605) 688-5932, Email: Jeonghee.yeo@sdstate.edu

References

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