

Emotion Regulation and the Disposition Effect

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ABSTRACT:

There is evidence that the way individuals regulate their emotions has material consequences on behavior and financial decision performance. Psychological research differentiates broadly among subjects using predominantly antecedent-focused (reappraisal) or response-focused strategies (suppression) for emotion regulation. In order to gain more insight into how emotions and their regulation shape our financial decision making, we conducted a laboratory experiment with the goal to investigate how different emotion regulation strategies affect the disposition effect (N=100). By means of the Emotion Regulation Questionnaire (ERQ) and physiological measures (for skin conductance and heart rate) we identify subjects using predominantly reappraisal or suppression strategies. Our major results are (i) that using preferably suppression strategies does not influence decision-making, and (ii) that using preferably reappraisal strategies results in a significant stronger susceptibility to the disposition effect. Based on these results, we conducted a second lab experiment (N=50), where we induce mindfulness, applying a 15-minute meditation task prior to the session. Mindfulness is known for increasing awareness and attention. Interestingly, the subjects in the mindfulness treatment react more susceptible to the disposition effect than those without the mindfulness induction. More precisely, whereas subjects using dominantly reappraisal strategies behave similar to those without the mindfulness induction, those, who do not use dominantly reappraisal strategies show a significantly stronger exposedness to the disposition effect in the mindfulness induction treatment.

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