Title
Volatility shocks and investment behavior

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Abstract
We investigate how volatility shocks influence investments into a risky asset, perceptions about the asset’s risk, its future price/return development, and investor satisfaction. We run investment experiments mimicking volatility shocks with two subject pools (financial professionals and students) in two waves: one during a comparatively tranquil stock market period in December 2019 and one during the volatile period of March 2020 caused by the COVID-19 pandemic. In the experiments, participants take investment decisions in six treatments differing in (i) the direction of the volatility shock (down, up, straight) and (ii) the presentation format of the time series (prices or returns). We particularly investigate the influence of changes in risk preferences, triggered by the COVID-19 pandemic, on investment behavior in the experiment.

Data description
The experiment was conducted with 315 financial professionals from our proprietary subject pool (before.world) and 498 students of management and economics from the University of Innsbruck. 202 professionals (282 students) participated in Wave 1 in December 2019; 113 professionals (216 students) participated in Wave 2 between March 16 and March 31 – a period characterized by high volatility on global stock markets.

In both waves of the experiment we sequentially presented 100 daily returns of a risky stock, whose returns were based on historical data from the NASDAQ and DAX indices, respectively. Every 0.5 seconds one of the 100 returns was realized and was added either to a return bar chart or a price line chart. Every 20 return draws, i.e., five times in total, subjects had to make a number of decisions, allowing us to elicit the following variables: Percentage invested in the
risky stock (incentivized), perception of the stock’s risk, stock price/return forecasts, investor satisfaction, and a trading recommendation.

The initial study (Wave 1) was pre-registered following the protocol from AsPredicted.org; the pre-registration as well as the experimental software, data, and replication materials are posted on the Open Science Framework (OSF): [https://osf.io/9chg8/](https://osf.io/9chg8/).

**JEL codes for the project**

C91, D84, G01, G11, G41

**Keywords**

Risk perception, investment behavior, experimental finance, finance professionals, volatility shocks.