

From Stress to Financial Mess: Study Suggests Acute Stress Affects Financial Decision Making

April 01, 2009

It is not surprising that as our economy continues its freefall, we are feeling increasingly more stressed and worried. Many of us are feeling extreme unease about the security of our jobs and being able to make our next mortgage payment. However, according to new a report in *Psychological Science*, a journal of the Association for Psychological Science, stress could make our financial troubles even worse.

The study, conducted by psychologists Anthony J. Porcelli and Mauricio R. Delgado of Rutgers University, reveals that acute stress affects risk taking during financial decision making. A group of volunteers chose between various financial gambles after being asked to immerse their hand for a period of time in either ice-cold (used to induce stress) or room-temperature (no-stress) water. Some of the choices were risky (less likely but with a high payout) and others conservative (more likely but with a lower value).

The results were consistent with a phenomenon known as the reflection effect — we tend to show increased conservatism when choosing between two potentially positive outcomes, but increase our risky behavior when choosing between two gambles that result in a loss. However, this study suggests that stress exaggerates this effect; while exposed to stress volunteers were more conservative when choosing between potentially positive outcomes and were riskier when choosing between gambles that could result in a loss.

The researchers propose that under stressful conditions, we fall back on automatic, lower-level thought processes and we “are less able to utilize more rational and deliberative thinking to assist in making decisions.” They also note that these findings have implications for understanding how our environment might influence decision making. In financial decision making, where rational and deliberative thinking is essential, a stressful environment might hamper our ability to make decisions.