Framing the Individual Investor:
The Case of Capital Guaranteed Funds

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Abstract

Expected utility theory assumes that the representation of a decision problem does not affect the decision itself. Unfortunately, many examples of framing exist whereby a change in the wording of a problem leads to other preferences. We apply the idea of framing to capital guaranteed funds. Capital guaranteed funds provide individual investors with an efficient way to build in capital protection and still earn a return proportional to e.g. the performance of the stock market. Based on an experiment, we show that investors are willing to put the interest on a time deposit at stake in order to earn a higher income. In this way, capital guaranteed funds serve a good purpose. However, the frame used to disclose information about the fund to the investor, matters. Investors tend to choose in a different way when they know characteristics of the probability distribution of the potential gains/losses. These findings clearly call for a closer attention of regulators.

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