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## Decision Task

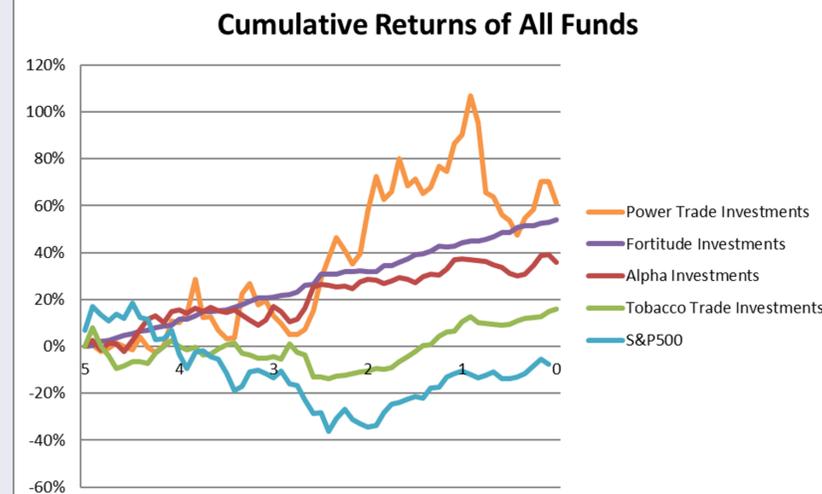
Imagine that a new client has come to you for advice on an investment decision. Your client is a professional that has a solid income and has recently received a \$75,000 bonus, which your client intends to invest in a fund for the next four years, when the returns will be cashed. Your client does not have any investments currently.

*Note from your client:* "I have recently received \$75,000, and would ideally like to invest in one of the following four funds: Power Trade Investments, Fortitude Investments, Alpha Investments, or Tobacco Trade Investments. Which fund would you recommend that I invest in for the next four years?"

Based on more detailed historical performance data provided in the following section, you will be asked to select one of the available four funds to recommend to your client (as shown in the graph below). Although your client is not interested in investing in the S&P 500, we have provided the S&P 500 index for comparison.

Note: The data provided are based on real funds, although the fund names and dates are disguised (i.e. the data do not necessarily span between 2009 and 2014).  
Returns, volatility, risk-adjusted returns, and additional information that can be requested for each fund may be found in the following section.

## Select a Fund



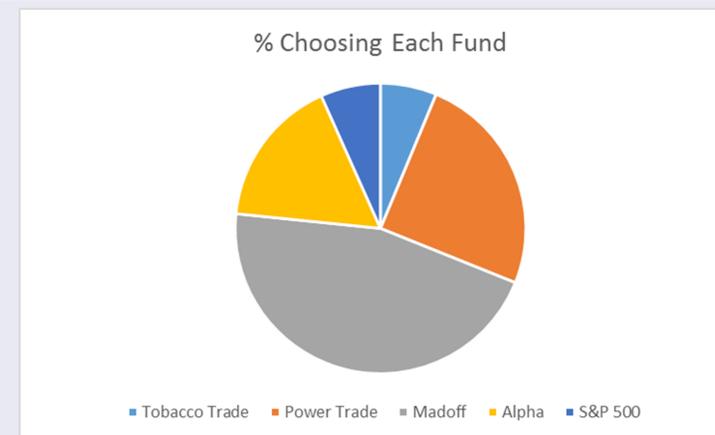
## Would You Fall for a Ponzi Scheme?

"Fortitude Investments" uses data from Bernie Madoff's fund.



(image source: Henriques, Diana. "At Stake for Madoff in Hearing: His Freedom" NYT March 11, 2009. <https://www.nytimes.com/2009/03/12/business/12madoff.html>)

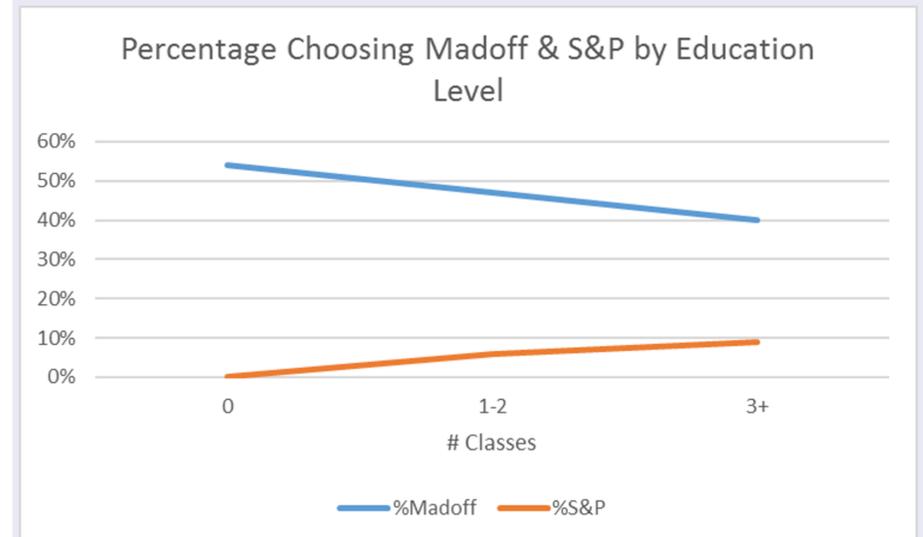
## 46% of participants took the bait



## Binary Outcome Model (logit): Choose Madoff?

| Model:     | 1     |           | 2     |           | 3     |           | 4      |           |
|------------|-------|-----------|-------|-----------|-------|-----------|--------|-----------|
| Variable   | Coeff | Std Error | Coeff | Std Error | Coeff | Std Error | Coeff  | Std Error |
| Female?    | -.52  | .23       | -.55  | .24       | -.40  | .25       | -.58   | .28       |
| Finance?   | -.47  | .22       | -.40  | .23       | -.49  | .25       | -.23   | .28       |
| Busmajor?  |       |           | -.23  | .29       | -.19  | .32       | -.37   | .35       |
| Age        |       |           | -.02  | .05       | -.01  | .05       | -.14   | .06       |
| Extra      | -.30  | .15       | -.30  | .15       | -.29  | .16       | -.21   | .18       |
| Agree      | .11   | .19       | .10   | .19       | .00   | .21       | -.04   | .23       |
| Consci     | .45   | .20       | .47   | .20       | .42   | .21       | .54    | .24       |
| Neuro      | .03   | .18       | .01   | .18       | .01   | .19       | .10    | .21       |
| Open       | .17   | .20       | .15   | .20       | .12   | .21       | .00    | .23       |
| Info?      |       |           |       |           | .97   | .25       | 1.24   | .27       |
| Unethical  |       |           |       |           |       |           | -.28   | .09       |
| Suspicious |       |           |       |           |       |           | -.43   | .09       |
| ChiSqu     | 17.75 |           | 18.51 |           | 34.90 |           | 109.74 |           |
| PseudoR2   | .03   |           | .03   |           | .07   |           | .21    |           |
| n          | 408   |           | 408   |           | 386   |           | 384    |           |

## Stronger background leads to more skepticism



## Survey Setup

- 1 Decision Task Info
- 2 Fund Selection
- 3 Reflection Questions
- 4 Big Five Personality Inventory
- 5 Personal Characteristics

## Participating Students

- Varying training levels
  - Principles of Microeconomics
  - Principles of Macroeconomics
  - Business Finance
  - Investment Analysis
  - MBA
- Extra-credit opportunity in class – fill out survey
  - 479 total participants
  - 361 providing complete responses

## Brief Summary

- More economics and finance classes leads to more skepticism in investment task.
  - The effect is modest, but cumulative
  - Possibly mediated through viewing Madoff fund as suspicious or unethical
- Personality traits and gender also influence skepticism.
  - Women are less likely to choose the too-good-to-be-true option?
  - More introverted and less conscientious participants favored Madoff