2007 Dissertation Award:
A Five-nation Examination of Financial Risk Tolerance

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Abstract

This study expanded the current literature base on financial risk tolerance and specifically addressed the understanding of this construct from a multinational perspective by employing an empirical comparison of financial risk tolerance between the Middle Eastern country of Kuwait and the countries of Australia, New Zealand, United Kingdom, and United States. Specifically, the purpose of the study was to determine whether the clients of financial advisors in these five countries varied in terms of their risk tolerance. This five-nation comparative assessment extends the findings of previous studies examining the relationship between demographic factors and risk tolerance, and introduces individuals' country of residence (i.e., national culture) as an additional factor affecting this construct. The total study sample from all five countries included 58,491 cases. Risk tolerance scores for each case were derived from the same psychometrically-validated risk assessment instrument, thus allowing for a sound statistical by-country comparison of risk tolerance.

Based on national cultural differences, it was hypothesized that clients in Kuwait would have a lower financial risk tolerance than the clients in the other countries sampled. Analysis of variance with planned comparisons was used to compare clients' risk tolerance as found by an objective measure and by clients' self-assessed financial risk tolerance. Multiple linear regression was used to model the relationship between risk tolerance scores (dependent variable) and a set of demographic independent variables (i.e., age, gender, education level, number of financial dependents, income, net assets and country of residence) using the multinational sample of adult individuals who were seeking financial advising services. More specifically, financial planning clients who were married or in a de facto relationship and resided in the aforementioned countries at the time of data collection made up the sample studied.

Findings indicated the average financial risk tolerance of male clients in Kuwait was significantly lower than the average financial risk tolerance of male clients in the other countries in the sample. It was also found that the explanatory power of demographic variables varied across countries. Differences in average risk tolerance and demographic factors affecting risk tolerance indicated a possible a link between national culture and financial risk tolerance.

Endnotes

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