

# **The Effect of Early Investment Decisions on Future Investment Strategies:**

## **Why Choice Matters**

Paula T. Roberts<sup>1</sup>

Belmont University

**Suggested running head:** EARLY INVESTMENT DECISIONS

Corresponding author:

Paula T. Roberts

Belmont University

Mail Stop 12050

1900 Belmont University

Nashville, Tennessee, USA

[paula.roberts@belmont.edu](mailto:paula.roberts@belmont.edu)

+01 (615) 460-6323

**Author Note.** The submitted work is original and is not currently under review by any other journal. We have no known conflicts of interest to disclose.

---

<sup>1</sup> Jack C. Massey College of Business, Belmont University, Nashville, Tennessee, USA

**Abstract**

This qualitative study examined how high net worth individuals (HNWIs) describe their investment decision-making, the role of choice-supportive bias in recalling past investment choices, and perceptions of financial risk tolerance. Drawing on behavioral finance (prospect theory; dual-process accounts of judgment), semi-structured interviews were conducted with 10 self-identified HNWIs (ages 45–64). Using grounded-theory coding procedures, themes indicated that participants relied on individualized decision strategies, frequently involving long-term relationships with wealth managers; that memorable past investment outcomes shaped subsequent strategy selection; and that risk tolerance was described as conditional on investment magnitude and life stage (particularly proximity to retirement). Contrary to expectations from choice-supportive bias research, participants' recollections of salient investment decisions were largely evaluative and outcome-consistent, with explicit acknowledgment of negative outcomes when present. Findings contribute qualitative evidence on the cognitive framing of risk and investment learning among HNWIs and suggest boundary conditions for choice-supportive bias in financial contexts.

*Keywords:* behavioral finance, choice-supportive bias, decision-making, financial risk tolerance, grounded theory

## **Introduction**

Behavioral finance integrates psychological theory with financial behavior to explain how real-world investors make decisions under risk and uncertainty (Ricciardi & Simon, 2000). In contrast to assumptions of fully rational actors and efficient markets in traditional finance, behavioral finance documents systematic heuristics, biases, and affective influences that shape judgment and choice (Barberis & Thaler, 2003; Statman, 2014). Although a substantial literature addresses decision biases in general populations, comparatively less work has examined how high net worth individuals (HNWIs) describe the cognitive processes underlying investment decisions and risk-taking, despite the potential of this group's decisions to influence markets. One bias with implications for investor learning is choice-supportive bias, defined as the tendency to remember chosen options more favorably than rejected alternatives (Mather et al., 2000). In financial contexts, biased reconstruction of prior choices may reduce psychological discomfort (cognitive dissonance) and shape subsequent risk behavior (Goetzmann & Peles, 1997; Nofsinger, 2001). The present qualitative study investigated (a) how HNWIs report making investment decisions, (b) whether and how choice-supportive bias appears in recollections of salient investment choices, and (c) how participants describe financial risk tolerance. The research questions were: (1) How are financial investment decisions made? (2) What role does choice-supportive bias play in deciding among investment options? and (3) How does risk tolerance factor into financial investment decisions?

## **Literature Review**

### **Behavioral Finance Foundations**

Behavioral finance explains systematic departures from rational-choice assumptions by incorporating psychologically plausible features of judgment under uncertainty. Prospect theory

posits that decision makers evaluate outcomes relative to reference points, weight losses more than commensurate gains, and transform probabilities in ways that generate predictable patterns of risk aversion for gains and risk seeking for losses (Kahneman & Tversky, 1979). These descriptive claims help explain why investors may respond more strongly to negative portfolio movements than to equivalent gains, why prior outcomes can become salient anchors for later choices, and why the subjective experience of a loss can influence subsequent willingness to take risk beyond objective wealth levels.

### **Choice, Cognitive Dissonance, and Choice-Supportive Memory**

Choices can create psychological commitment. Cognitive dissonance theory proposes that when individuals experience inconsistency between a decision and later information (e.g., disappointing outcomes), they are motivated to reduce discomfort by reinterpreting information in ways that preserve a coherent self-view (Festinger, 1957). Choice-supportive bias extends this logic to memory, predicting that people will later recall chosen options more favorably than rejected alternatives. In a foundational experimental demonstration, participants made source-monitoring errors that preferentially attributed positive features to chosen alternatives and negative features to foregone alternatives (Mather et al., 2000). In investing, where outcomes unfold over time and information is probabilistic, dissonance-reducing recall could plausibly influence learning (e.g., misattributing success to skill) and subsequent strategy selection (e.g., doubling down on a prior approach).

### **Experience-Based Learning and Path Dependence in Investing**

Investment decisions are embedded in a learning environment where feedback is noisy and often delayed. Evidence from household finance suggests that macroeconomic experiences—particularly returns encountered earlier and more recently in life—are associated with later risk

attitudes and portfolio choices (Malmendier & Nagel, 2011). In parallel, decision research demonstrates that individuals exhibit inertia in complex domains, disproportionately favoring “do nothing” options or prior selections even when alternatives are objectively available (Samuelson & Zeckhauser, 1988). Together, these perspectives imply that early investment outcomes may shape future strategies through both learning mechanisms (updating beliefs about markets and one’s competence) and decision frictions (status quo bias and escalation of commitment). These processes provide a theoretical basis for examining “why choice matters” beyond performance alone: early decisions may become psychologically sticky reference points that organize future investment behavior.

### **Financial Risk Tolerance**

Financial risk tolerance is commonly conceptualized as a person’s willingness to engage in financial behaviors with uncertain outcomes, but empirical work indicates that risk tolerance can be context-dependent and sensitive to framing, life stage, and perceived control. In applied financial planning, risk tolerance is often assessed with standardized instruments, such as the scale developed by Grable and Lytton (1999), which operationalizes willingness to take financial risk through behavioral preference items and situational choices. For HNWIs, risk tolerance may be expressed not only as a preference for volatility but also as a strategic orientation toward wealth preservation, tax efficiency, liquidity, and intergenerational goals—dimensions that may not be captured fully by brief scales and that may benefit from qualitative exploration.

### **High Net Worth Individuals and Decision Context**

HNWIs are commonly described in industry and regulatory contexts as individuals with at least \$1 million in investable assets (excluding primary residence in many definitions), a threshold related to “accredited investor” criteria in U.S. securities regulation (U.S. Securities and

Exchange Commission, 2011). Relative to retail investors, HNWIIs may face a broader investable opportunity set (e.g., private placements, alternatives) and more frequent interactions with financial professionals. Yet psychological biases documented in retail trading can still be relevant. For example, evidence of excessive trading and the performance costs of overconfidence suggests that beliefs about skill and information can meaningfully shape investment behavior (Shefrin & Statman, 1985; Barber & Odean, 2002). Understanding how HNWIIs narrate early investing experiences and later strategy adjustments may therefore contribute to both behavioral finance theory and professional practice in wealth management. In summary, prospect theory, dissonance-based accounts of postdecision justification, and research on experience-based learning converge on a core proposition: early investment outcomes may influence later strategies not only through wealth changes but also through memory, attribution, and inertia. Consistent with these perspectives, the present study used qualitative interviews with HNWIIs to examine how participants describe early and memorable investment decisions, how they evaluate chosen versus foregone alternatives, and how they articulate risk tolerance as their wealth and life circumstances evolve.

## **Method**

### **Participants**

Participants were 10 American adults who self-identified as HNWIIs (\$1 million in investable assets), ages 45–64. Two participants were women and eight were men; two identified as Black/African American and eight as White/Caucasian. Self-reported net worth ranged from \$1 million to over \$30 million.

### **Design and Procedure**

Using a grounded-theory approach, participants were recruited via email and LinkedIn. Semi-structured interviews (critical incident prompts) focused on memorable investment decisions, perceived alternatives, and risk considerations. Interviews were recorded, transcribed, and de-identified.

### **Data Analysis**

Transcripts were coded iteratively (initial and focused coding) with constant comparison and analytic memos to develop categories and themes aligned with the research questions.

### **Ethical Considerations**

Participants completed an informed-consent process prior to the interview. Interviews were audio-recorded with permission, transcribed, and de-identified to protect confidentiality. Data were stored securely and used solely for research purposes consistent with the consent agreement.

### **Trustworthiness**

Procedures to support trustworthiness included use of a semi-structured interview protocol, iterative coding with constant comparison, and analytic memoing to document decisions and emerging interpretations. Categories were refined across transcripts to identify convergent and divergent patterns, consistent with a constructivist grounded-theory orientation (Charmaz, 2014). Because the aim was theory development and interpretive understanding rather than statistical generalization, findings are presented as thematic patterns grounded in participants' accounts.

## **Results**

### **Investment Decision-Making**

Participants described heterogeneous decision strategies that ranged from active, self-directed monitoring to substantial delegation to wealth managers. A common pattern was reliance on a

personally “tested” process (e.g., screening opportunities, seeking confirmatory information, or prioritizing familiar asset classes) that participants traced to earlier wins, losses, or professional experiences. In several accounts, early outcomes were described as teaching moments that shaped later rules of thumb—for example, shifting from concentrated positions to more diversified allocations, emphasizing liquidity after a period of illiquidity, or formalizing a risk boundary for speculative investments. Where delegation was emphasized, participants often framed advisor reliance as a way to manage time, complexity, and emotional reactivity, while maintaining a desire to “understand enough” to evaluate recommendations. One participant summarized skepticism toward advisors as follows: “Financial advisors are like carpenters, everything looks like a nail, so why bother with them. I just park my money out of my reach” (Participant 3).

### **Choice-Supportive Bias in Recalled Decisions**

When recounting salient investment decisions, participants commonly evaluated choices in relation to outcomes and subsequent learning rather than consistently portraying the chosen option as superior. Many narratives included explicit acknowledgment of negative outcomes, opportunity costs, and alternative paths that “could have” been taken. This pattern suggests boundary conditions for choice-supportive bias in high-stakes financial contexts: large, emotionally salient outcomes may promote accuracy-oriented recall or, at minimum, reduce the tendency to reconstruct choices as uniformly positive. At the same time, participants sometimes described interpretive reframing that protected a sense of competence (e.g., attributing a loss to unforeseeable market events rather than poor judgment), which is consistent with dissonance-reduction mechanisms (Festinger, 1957). For example, one participant described an early concentrated stock purchase and stated, “I lost about \$400,000 and I realized, um, it doesn’t

matter how something looks on the surface, if I can't have some level of involvement and understanding and control of what's going on" (Participant 10).

### **Financial Risk Tolerance**

Risk tolerance was described as conditional and multi-determined. Participants distinguished between risks they perceived as "knowable" (e.g., investments tied to industries they understood, or ventures where they could evaluate management quality) and risks they experienced as opaque or difficult to control. Life stage shaped these preferences: several participants described a shift from accumulation to preservation as retirement approached, consistent with a stronger emphasis on downside protection and stable income. Participants also differentiated "core" allocations from "satellite" or speculative positions, implying an internally managed mental accounting system that ring-fenced higher-risk bets while protecting a foundational portfolio. This framing aligns with prospect-theory predictions that reference points and loss sensitivity organize risk preferences (Kahneman & Tversky, 1979). As one participant noted, "I look more at the downside now as I get closer to retirement... it's protection of assets" (Participant 4).

### **Overarching Category: Know Your Investments**

Across themes, participants emphasized a pragmatic standard for confidence in decisions: "knowing" the investment well enough to anticipate key drivers of success and failure. This knowing was described as emerging from experience (learning what information matters), from relationships (trust in an advisor's competence and alignment), and from governance practices (e.g., limits, diversification, and monitoring routines). The overarching category therefore reflected both cognitive and procedural components—how participants thought about investments and how they structured decisions to manage uncertainty.

## **Discussion**

**Principal Findings**

Three findings are most salient. First, participants described early investment outcomes as shaping later strategy selection through explicit “rules” (e.g., diversification, liquidity preference, reliance on advisors), indicating that early decisions functioned as formative experiences rather than isolated events. Second, risk tolerance was described as context-dependent and organized around protectable reference points (e.g., retirement security), consistent with prospect theory’s emphasis on loss sensitivity (Kahneman & Tversky, 1979). Third, while choice-supportive bias was not prominent as uniformly positive recall, narratives contained subtler self-protective attributions consistent with dissonance-reduction processes (Festinger, 1957).

**Theoretical Implications**

The findings suggest that “choice matters” in part because choices create psychological and procedural path dependence. Consistent with experience-based accounts, participants’ descriptions resembled learning from feedback and updating beliefs about what constitutes a good decision, paralleling evidence that lifetime return experiences shape later risk taking (Malmendier & Nagel, 2011). At the same time, the narratives indicated that previous strategies can become default options, aligning with status quo bias in complex decision environments (Samuelson & Zeckhauser, 1988). Finally, patterns of self-attribution and confidence may intersect with documented overconfidence dynamics in investing (Barber & Odean, 2002), suggesting that qualitative accounts can help specify when investors interpret outcomes as skill versus noise.

**Practical Implications**

For practitioners, results highlight the value of eliciting clients’ “investment origin stories”—early wins, losses, and formative decisions—because these experiences may underlie persistent

preferences for liquidity, delegation, or specific asset classes. Advisors may also benefit from discussing how clients set reference points (e.g., retirement floor, philanthropic goals) and how those reference points influence risk taking in downturns, consistent with prospect-theory predictions (Kahneman & Tversky, 1979). Although standardized questionnaires (e.g., Grable & Lytton, 1999) can support initial assessment, qualitative dialogue may clarify context-specific meanings of risk, especially among HNWIIs with access to complex investment vehicles.

### **Limitations**

Several limitations qualify interpretation. The sample was small and recruited through channels that may privilege participants who are willing to discuss personal finance, limiting transferability. Wealth status was self-reported, and the study did not corroborate portfolio composition or performance outcomes with external records. In addition, interviews rely on retrospective accounts; even when participants are candid about losses, recall can be shaped by post hoc sensemaking and motivated reasoning. Finally, because the study emphasized interpretive depth, it does not estimate effect sizes for the association between early experiences and later strategy choice.

### **Future Research**

Future studies could triangulate narrative recall with objective investment records to test when choice-supportive memory distortions emerge (Mather et al., 2000) and whether they are moderated by stake size, advisor involvement, or outcome valence. Mixed-method designs could combine qualitative interviews with validated risk-tolerance measures (Grable & Lytton, 1999) and behavioral tasks to assess dissonance reduction and attribution tendencies. Additional sampling across HNWI subgroups (e.g., entrepreneurs vs. inheritors) could clarify how control and domain expertise shape perceived “knowability” of risk.

**Conclusion**

Overall, the findings indicate that early and memorable investment decisions can shape later strategies through learning, reference-point setting, and inertia in decision processes. Participants described early outcomes as formative experiences that informed later rules of thumb (e.g., diversification, liquidity preferences, and reliance on advisors) and as events that anchored subsequent definitions of acceptable risk. In relation to the study's research questions, HNWIIs characterized decision-making as a blend of personal monitoring and selective delegation, reported that recollections of pivotal choices were typically outcome-consistent rather than uniformly choice-supportive, and portrayed risk tolerance as conditional on knowability, stake size, and life stage.

The study also contributes to behavioral finance by clarifying how dissonance-reduction and choice-supportive processes may operate in high-stakes financial contexts. Rather than presenting systematically favorable reconstructions of past choices, participants often acknowledged losses and opportunity costs, suggesting potential boundary conditions for choice-supportive bias when outcomes are salient and financially meaningful. At the same time, narratives included self-protective attributions that preserved a sense of competence, supporting the broader proposition that psychological mechanisms used to manage uncertainty and identity remain relevant among sophisticated investors.

From an applied perspective, results underscore the importance of explicitly addressing clients' formative investment experiences. For wealth managers and financial planners, exploring "origin stories" and reference points may reveal why certain strategies persist even when market conditions change. In addition, integrating standardized risk-tolerance assessment with structured

qualitative dialogue may better capture the context-specific meaning of risk for HNWIs—particularly when clients’ goals involve preservation, liquidity, and intergenerational planning. In sum, why choice matters is not limited to its immediate financial consequences. Choices shape what investors remember, what they learn, and which strategies become default responses under uncertainty. Continued research that links narrative recall to objective investment behavior can further specify how early decisions channel later strategy selection and how professionals can support more reflective, adaptive decision-making over the life course. Early investment choices can create durable psychological and strategic “default settings” that shape how investors interpret risk, remember outcomes, and adapt their strategies over time.

### References

- Barber, B. M., & Odean, T. (2002). Online investors: Do the slow die first? *Review of Financial Studies*, 15(2), 455–488.
- Barberis N., & Thaler, R. (2003). A survey of behavioral finance. In G.M. Constantinides, M. Harris, & R. Stulz (Eds.), *Handbook of the economics of finance* (pp. 1054-1123). Amsterdam, Netherlands: Elsevier Science B.V.
- Charmaz, K. (2014). *Constructing grounded theory* (2nd ed.). SAGE.
- Festinger, L. (1957). *A theory of cognitive dissonance*. Stanford University Press.
- Goetzmann, W. N., & Peles, N. (1997). Cognitive dissonance and mutual fund investors. *Journal of Financial Research*, 20(2), 145–158.
- Grable, J. E., & Lytton, R. H. (1999). Financial risk tolerance revisited: The development of a risk assessment instrument. *Financial Services Review*, 8, 163–181.
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263–291.
- Malmendier, U., & Nagel, S. (2011). Depression babies: Do macroeconomic experiences affect risk taking? *Quarterly Journal of Economics*, 126(1), 373–416.
- Mather, M., Shafir, E., & Johnson, M. K. (2000). Misremembrance of options past: Source monitoring and choice. *Psychological Science*, 11(2), 132–138.
- Nofsinger, J. R. (2001). *Investment madness: How psychology affects your investing—and what to do about it*. Prentice Hall.
- Ricciardi, V., & Simon, H. K. (2000). What is behavioral finance? *Business, Education and Technology Journal*, 2(2), 27–34.
- Samuelson, W., & Zeckhauser, R. (1988). Status quo bias in decision making. *Journal of Risk*

*and Uncertainty*, 1(1), 7–59.

Shefrin, H., & Statman, M. (1985). The disposition to sell winners too early and ride losers too long: Theory and evidence. *Journal of Finance*, 40(3), 777–790.

Statman, M. (2014). Behavioral finance: Finance with normal people. *Borsa Istanbul Review*, 14, 65–73.

U.S. Securities and Exchange Commission. (2011). *Accredited investor net worth standard* [Small entity compliance guide].