

In the Red: How Color Affects Investors and Financial Markets

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Abstract

Investors view financial information in graphical form, where losses are often shown in red. Yet it is not known how color influences the way people make financial decisions. Research in psychology suggests that red color signals danger and motivates avoidance behavior. In three experiments, we show that using red to communicate financial losses, compared to black or blue color, makes investors

(i) more risk averse,

(ii) less likely to positively evaluate financial assets, and

(iii) more pessimistic about future price changes in the stock market. We find that these results are consistent across two experiments, but that the effects are absent for a sample of colorblind participants. These findings carry important implications for household finance, as well as for the financial institutions and service providers.