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Research Snapshot: *The Disappointment Dilemma*

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Research Summary

No one loves being disappointed, but some are strongly averse to the feeling. Researchers were curious about these folks. Would their disappointment aversion lead them to make less risky financial choices? And if so, would their long-term disappointment (from potentially lower returns) outweigh their short-term disappointment (from potentially risky losses)? Researchers termed this tradeoff the disappointment dilemma, and it is a dilemma financial counselors, planners, and coaches can help their clients navigate, especially in uncertain economic times when disappointment lurks behind every financial headline.

Here are some of the study's highlights:

- **Short-Run versus Long-Run:** The researchers note that financial decision-makers who are averse to disappointment may allocate dollars "safely" to minimize short-term disappointment. However, this choice may lead to future regret if long-term financial performance is less than it would have been had a different allocation choice been made.
- **Disappointment versus Regret:** The researchers distinguish disappointment from regret for purposes of this study, noting that regret is more often studied when it comes to financial behaviors. Regret is associated with a desire to have done something else or made a different choice in the past. Disappointment is a mismatch between expectations and actual outcomes. They are similar, yet distinct, emotions.
- **Anticipatory Emotions:** This study focuses on anticipatory disappointment, that is, how someone would feel if they were to be disappointed later. It is this anticipation the researchers studied as it related to financial risk-taking behaviors. It is also worth noting that the resulting disappointment can then reinforce future disappointment aversion, which adds to the circular nature of disappointment aversion.

This is only a summary of an interesting paper that introduces two new scales: One to measure expectations and one to measure disappointment aversion. Read the full study to better understand the other literature in the field, the methodology, and the study's limitations.

Grable, J.E. & Kwak, E.-J. (2022). The disappointment dilemma: The role of expectation proclivity and disappointment aversion in describing financial risk aversion and investing risk-taking behavior. *Journal of Financial Counseling and Planning*, 33(3), 1-18.

Study Details

Quantitative Study

525 Participants (U.S. adults)

45.4% completed an undergraduate or graduate degree

27.2% had household income over $100k, 29.7% had household income below $30k

50.8% Male

49.2% Female

Average Age: 46.87 years old

Bridge to Practice

As with all research, this isn't necessarily generalizable. There are limitations and more questions to answer. ***Nevertheless, there are interesting findings you can think about incorporating in your practice.***

Use two new scales with clients.

The Disappointment Aversion and Expectation Proclivity Scales created and validated by the researchers may help you gauge your client's feelings around disappointment and expectations. Because the scales are based on case scenarios, they allow the practitioner to describe a hypothetical scenario and gather a client's potential reaction. This may be a much more effective way of opening the conversation about disappointment, rather than asking a client to rate their own disappointment solely on a numerical scale.

Reframe financial risk-taking.

Once a counselor or planner has a good sense of a client's outcome expectations and disappointment aversion, those insights can help reframe financial actions to achieve better financial results. For example, a client with high disappointment aversion may – with support – be able to reframe a choice that seems risky in the short-run to one that is less likely to lead to regret in the long-run.

Talk about financial risk taking.

This study demonstrated that risk aversion (which informs financial risk-taking behavior) is influenced by both outcome expectation and disappointment aversion. Those two factors work in opposite directions (i.e., they are inversely related), so helping clients assess the impact of each feeling will provide a more nuanced understanding of risk aversion, and thus risk-taking behaviors. Clients with high outcome expectation will likely be willing to take more financial risk. Clients with strong disappointment aversion will likely prefer less risky financial actions.

Continue the conversation.

Because this initial research focused on 525 individuals who tended to be older, more educated, and of higher incomes than the general population, consider continuing the conversation with clients who fall outside of those demographics. With additional information and insights shared by practitioners, the impact of the research can extend more broadly to the general population.

Definitions

- **Regret:** A negative emotion associated with the feeling that one's situation could or would have been better had a different choice been made
- **Disappointment:** An outcome that does not match up to expectations
- **Aversion:** A negative feeling toward something with a desire to avoid it
- **Proclivity:** An inclination toward something
- **Anticipatory Emotion:** A feeling someone has about what could happen in the future