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Online investing: Derealization and the experience of risk

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Online Investing: Derealization and the Experience of Risk

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EXTENDED ABSTRACT - In this paper we set out to show that the Internet causes a disruption in traditional patterns of online investors' perception, resulting in, what Lyng (1990) calls, edgework: a desire to experience risk as an end in itself. The perceptual disruption caused by the Internet is a function of two distinct yet interrelated processes: virtualization and derealization (Virilio, 2000). Virtualization denotes the process of substituting reality with virtual representations, including money, the practice of trading, companies, and even the Self. Because of this progressive virtualization of its key components, the entire investing experience seems increasingly unreal (derealization). It is only after the phenomenon of online investing has been derealized in the mind of the investor that it emerges as site par excellence for voluntary high risk-taking behavior, transforming its purpose from maximizing risk-adjusted returns to maximizing the experience of risk for its own sake.

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Online Investing: Derealization and the Experience of Risk

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EXTENDED ABSTRACT

In this paper we set out to show that the Internet causes a disruption in traditional patterns of online investors' perception, resulting in, what Lyng (1990) calls, *edgework*: a desire to experience risk as an end in itself. The perceptual disruption caused by the Internet is a function of two distinct yet interrelated processes: virtualization and derealization (Virilio, 2000). Virtualization denotes the process of substituting reality with virtual representations, including money, the practice of trading, companies, and even the Self. Because of this progressive virtualization of its key components, the entire investing experience seems increasingly *unreal* (derealization). It is only after the phenomenon of online investing has been derealized in the mind of the investor that it emerges as site *par excellence* for voluntary high risk-taking behavior, transforming its purpose from maximizing risk-adjusted returns to maximizing the experience of risk for its own sake.

Our model is the result of an analysis of 35 long, phenomenological interviews (Kvale, 1983; McCracken, 1988; Thompson, Locander, & Pollio, 1989) with 25 informants between the summer of 2000 and the fall of 2002. This study is part of a larger project that pursues two interrelated goals. First, we want to go beyond quantitative analyses and instead concern ourselves with questions of perception, experience, and meaning related to individual online investing. Here, we follow an emerging stream of research in behavioral finance (McGoun, 1996, 1997), anthropology (Conley & O'Barr, 1992; O'Barr & Conley, 1992), and consumer behavior (Allen, McGoun, & Kester, 2000; Allen & McGoun, 2000) that seeks to overcome some of the limitations of financial and economic research by looking at investing as a meaningful social practice and a significant cultural expression.

Second, we wish to extend our understanding of the role and effect of the Internet on online consumer behavior. To date, such discussions have borrowed exclusively from the field of communication theory, pointing mainly to the Internet's interactive nature as well as its many-to-many broadcasting capability (e.g., Hoffman & Novak, 1996, 1997; Kozinets, 2002). While such approaches add much to our understanding of online consumer behavior, they fail to address both, the medium's facility to alter familiar patterns of human perception and the effects of altered perceptions on consumer behavior. We therefore borrow from media and literary theory to propose that the Internet intervenes in human nature in important ways (cf. Benjamin, 1968; Virilio, 1989, 2000). For the purposes of this paper we focus on the *perception of reality* and how its disruption through communication technologies might influence consumer dispositions and actions.

Our research also adds to an existing body of knowledge in the field of behavioral finance. Barber and Odean (1999) and Odean (1999) have shown that investors who move their stock trading activity online trade more and have a tendency to buy more risky stocks. Such results suggest, contrary to traditional economic and finance theory, that the medium used for trading has an effect on trading habits. Yet, precisely what this effect might be has remained unclear because such research would require an analysis of the medium itself. Our research closes this gap by demonstrating that perceptual disruptions caused by the Internet affect online investment behavior in ways observed by behavioral finance scholars. Therefore, by illuminating the effect of the medium on investors' perceptual horizon, our model adds to our understanding of online trading and online consumption more generally.

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