

Date: September 6, 2024

Subject: The Effect of Personal Experiences on Market Activities

MLA Citation:

Malmendier, Ulrike. "Experience Effects in Finance: Foundations, Applications, and Future Directions." *OUP Academic*, Oxford University Press, 17 Sept. 2021, doi.org/10.1093/rof/rfab020.

Assessment:

After reading about how lifetime experiences affect an individual's activity in the stock market, I have learned about the psychology behind why individuals choose to study finance. In the article, I learned that experience effects have four distinct features that apply to market participation: long-lasting imprint, how negative experiences can impact distinct age cohorts' trading activities; recency bias, how younger cohorts are more likely to overestimate recent information given to them; domain specificity, how experience effects only affect a specific domain; and the "robustness" of learned knowledge, how research should study a group representative of the population, not just professionals (Malmendier). The four distinct features have increased my interest in the financial field because my personal experiences with money have been limited, so I am left wondering how I can improve not only my, but others', financial situation. The psychological analysis of financial market activity proves that it does not take innate talent to learn or work in finance, but it takes past experiences and passion to succeed.

If I pursue finance, I would need to keep up with trends. The financial markets are extremely susceptible to change, as highlighted in the article, so being active and aware of daily media will help me understand the trends and volatility of securities. Every week, I would need

to read financial articles, learn more jargon, and research more. By understanding the financial world better, the concept of the long-lasting imprint will affect me less, which will result in me making better financial decisions. From a long-term perspective, I would need to find and work an internship, a job, or a mentorship to pursue finance. Although learning information from media and articles is important, having in-person professional experience in finance will help me professionally in a professional sense. To work in the financial industry, I need to have strong communication and interpersonal skills to be successful in the long term. I also need to have project management skills to be efficient and organized when dealing with financial reports. According to the article, many professionals who undergo experience effects have been trading for many years, so being able to problem-solve and adopting characteristics like perseverance and resiliency will make me successful.

Professional experience such as a bachelor's degree in finance or a related field is required to work in the financial industry. However, the next best alternative, the opportunity cost of my education, is to take classes related to finance. I have taken Survey of Business, Marketing, and Finance, multiple algebra and calculus courses, and am currently taking Dual Credit Economics. These courses broaden my background knowledge of finance so I can build a pathway for my future and learn specific jargon that I need to be aware of.

In the general field of finance, the expected annual salary is around \$77,679 for a bachelor's degree holder, and around \$90,000 to \$100,000 after 10 years assuming hard work is put into improving the salary. Additionally, the financial job market has been steadily increasing (faster than the average rate). Therefore, opportunities will be available nationwide because of the capitalistic nature of individuals. As long as the economy is in a good position and

individuals are making money, there will be employment opportunities nationwide. Plus, the major is very versatile!

Yet, my personal outlook on finance varies. Although I enjoy researching finance in general, I wonder about the real-world applications of the major. The financial markets are unpredictable, making job security also uncertain. So, in a preventative manner, I can also look in the economics or accounting direction. Since I enjoyed my previous mathematics and psychology courses, the previous majors are an alternative to finance that utilizes similar topics of capital, goods, and society. Many of the concepts are similar, so adjusting my perspective is and will be a consideration for the question of “What suits me the best?”

Ultimately, in the financial world, more and more consumers and business professionals are finding individuals to help manage their portfolios, personal finances, or give financial advice. With a holistic perspective of the financial industry, it is constantly changing and adapting to its social, economic, and political environment. Even with the rise of artificial intelligence, a revolutionary change, many applications have already created programs to help consumers manage their finances, but human advisors remain crucial because technological applications do not experience experience effects (i.e. limited detection of risk-aversion based on prior experiences lived). The rapidly changing industry is always going to make me question the stability of finance and is going to always make me consider the opportunity cost of my decisions.

Annotated article

<https://drive.google.com/file/d/1AXpNU6OxZshERgn7BFNaDVkRrJZdOty1/view?usp=sharing>