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Analysis of Different Types of Investors Based on Maslow's Theory

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ABSTRACT

The core theory of investment is people, and all the investment activities scholars study and the laws behind them are essentially macro manifestations of individual investment behavior. Therefore, if people can start from the perspective of an individual and understand the performance of a single individual in investment, they can understand the investment activity more deeply. By referencing the relevant psychological literature and behavioral finance literature and applying Maslow's theory to classify investors at different levels, the author roughly divides investors into four categories: physiological need investor, safety need and love need investor, esteem need investor and self-actualization investor. After comparing these four types of investors, it can be found that these four types of investors have specific investment methods and investment characteristics. Therefore, if people can accurately classify these four types of investors, they can avoid over-trading and being misled by Social Interaction, and develop appropriate investment plans for the main needs and drawbacks of each type, thereby improving returns.

Keywords: *Maslow's theory, Investors, Need Level, Recognition, Advice*

1. INTRODUCTION

The current research on investment activities is mainly based on the relevant theories of economics and finance, which can use basic principles and quantification to explain and predict the market. On the basis of not considering government regulatory policies, essentially investor sentiment is the most fundamental cause of market behavior [1]. People [2] cannot explain social actions without understanding human motivations.

Maslow's theory starts from the main needs of people, dividing people into five levels, and these five levels of people are driven by different needs and show different social behaviors. When the needs of the low level are met, people's needs will be gradually transformed to the higher level. Although the five hierarchies exist in the individual at all times, this article focuses only on the most important, the need to dominate behavior. With the development of productive forces, the supply capacity of commodities has been greatly enhanced compared with the past, and the level of universal social security in various countries has increased, and people's needs have become increasingly diversified, and the current society is no longer fully explained by Maslow's theory. Therefore, when using Maslow's theory to analyze, this paper makes the necessary adjustments to the physiological needs of the first level. In the context of the goals and demographic convergence of love need and safety need, the second and third levels have been integrated. These two adjustments are made to make Maslow more relevant to modern society. Finally, by clarifying how to determine the level, further explore the implications of using Maslow's theory to classify investors. The research in this paper will help people understand people's investment behavior from the perspective of needs, and give specific recommendations for different types of investors.

2. DEFINITIONS OF DIFFERENT TYPES OF INVESTORS BY USING MASLOW'S THEORY

2.1. Physiological Need Investors

2.1.1. The Characteristic of Physiological Need Investors

Physiological needs are at the lowest level in Maslow's theory. People at this level regard the basic activities needed to sustain life as their greatest need.

However, the range of physiological needs of contemporary individuals has been expanded to the extent that all income can meet only the needs of survival or only a small surplus after meeting the needs of survival, so that the scope of physiological needs has been expanded, and the main needs include the satisfaction and improvement of physiological needs.

Investors at this level, although identical and single-minded, are divided into two distinct categories. One group is known as total risk-averse investors, who aspire to find a risk-free portfolio to realize returns to meet their own physiological needs. Therefore, their investment objects are mainly bank fixed deposits, state debt rolls, precious metals and related derivatives, etc. Since investing in the above products, they are hardly affected by market risk, and since they have a smaller share of investors in the type, the impact of complete risk averse investors on the market is limited. The other category is called hot-hand and gambler’s fallacy investor. Due to the relatively perfect security system in modern society, money savings are no longer necessary to ensure physical needs, hot-hand and gambler’s fallacy investors hope to completely get rid of physiological needs through investment. Their investments are often caught up inhot-hand and gambler’s fallacy. Due to the small number of original funds, if investors want to get rid of the physiological needs through investment, they must increase the funds in multiples in the short term. As a result, their investment behavior is more inclined to gamble and speculate. Meantime, because hot-hand and gambler’s fallacy investors are in the context of physiological demand as the main demand [3], they are more inclined to [4] believe that the event is non-random although the opposite is true. Therefore, they're more likely to fall into hot-hand and gambler’s fallacy. Although the amount of hot-hand and gamblers’ fallacy investors’ money is small, they can profoundly influence market sentiment, so that in most market crashes and bubble inflation, they can find significant features of the hot-hand and gambler's fallacy. This is also the root cause of the herd effect in capital markets [5].

2.1.2. Advice for Physiological Need Investors

From the above analysis, it can be seen that Physiological need Investor is often in a state of extreme conservatism or extreme irrationality. So for them, the investment plan should set according to the physiological needs, and the investment plan should be avoided from excessive trading and being affected by social interaction [6] and deviating from the investment plan made based on the main demand.

2.2. Safety Need and Love Need Investors

2.2.1. The Characteristic of Safety Need and Love Need Investors

The needs for security and the needs for love are divided into two hierarchies in Maslow's theory, but there is no essential difference in the characteristics exhibited by the two in economic activity. And under the influence of contemporary public opinion, love needs precede the safety needs in importance even more [7], the two converge in sequence. Safety needs include the possible lack of physiological needs or any threat to one’s health or security in general. Love needs are the basic motivator for taking care of the family as well as offspring. They are essentially resistant to the risks caused by force majeure and non-force majeure, and obtain stable returns based on their willingness to take smaller risks. In addition to the common needs and characteristics of the two, another important reason for classifying the two into one category is that the behavior of the two in the market is very similar.

The U.S. pension system is a typical option for investors with a need for safety, with the proportion of U.S. public pension (OASDI) medium- and long-term bonds reaching more than 95 percent. And when the risk of a break in the capital chain is that the U.S. Treasury Department bears the bottom responsibility. OASDI's yields are highly consistent with Treasury yields, and during the 2008 financial crisis, OASDI still achieved a yield of 5.1%. Employers’ pensions are divided into private sector allocations (DB) and state and local government allocations (DC), which are fragmented and mainly concentrated in developed countries in the Europe and US, with less volatility. Individual retirement accounts (IRAs) are more widely invested, with yields fluctuating within plus or minus 20 percent from 1997 to 2020. Investments in the education savings category are typical choices for love need investors. The College Savings Account (529 Plan) is an account specifically designed for education savings from which people can withdraw money to pay for all stages of education and this portion of the cost of education is not subject to federal income tax where each state government is responsible for developing a plan and selecting qualified asset managers to manage, and investors choose a portfolio that suits their risk tolerance. Thanks to the bull market and of the US stock market and the excellent managers, for more than ten years, 529Plan has achieved stable and objective gains. It can be seen that safety need and love need investors tend to invest in professional funds, focus on long-term investment, and have a high degree of rationality.

2.2.2. Advice for Safety Need and Love Need Investors

Most of safety need and love need investors have stable and objective returns, which can be seen from the above research and has a lot to do with their investment style. Even in the economic crisis, they not only have a portfolio with high-risk resistance, but also enjoy the maximum protection of the government, and still have relatively stable and objective returns. But such investors are often tempted by negative social interaction to homogenize with Physiological Need Investor (both are predominantly made up of non-professional investors, therefore, they [8] are more susceptible to social interaction), causing huge losses, so for safety need and love need Investor, the most important thing is not to deviate from the established investment plan.

2.3. Esteem Need Investors

2.3.1. The Characteristic of Esteem Need Investors

In Maslow's theory of needs, esteem need belongs to the advanced needs, which are the main needs after satisfying safety needs and love needs. For esteem need investors, money and the items they can buy with money can earn them respect, and the high returns from investing can also make them respected. Usually, esteem need investors have achieved financial freedom, and they regard being able to succeed in the market as their primary need, that is, they want to prove to others that they have strong investment capabilities and the correctness of their theories.

The composition of esteem need investors is more complex, consisting mainly of most fund managers, some successful retail investors, and a small number of entrepreneurs. For fund managers, performance can show their ability to gain respect, while performance can also bring them great monetary benefits. Respect for demand is therefore the biggest incentive for fund managers. And the market in various countries retail investors have an absolute advantage in the number, so successful retail investors can get a lot of respect from the same kind, which has a specific display on social media: for most retail investors, due to their own factors and successful retail investors have a high degree of similarity, and their solutions have the strong operability, successful retail investors often have a very high degree of attention, successful retail investors are also willing to share his investment plans and market insights to meet their own esteem need. For a small number of entrepreneurs who want to invest in other businesses to obtain benefits on the basis of their own well-run or have achieved great success, they want to prove that they can grasp the laws of business operation, for them, esteem needs are more inclined to a kind of self-psychological recognition than the recognition of others. This has some similarities to the self-actualization needs in the next section, but since there is no fundamental motivation to gain the approval of the self and others, he still belongs to the esteem needs. These three types of investors have strong professionalism, their investment ability has been tested by the market and the control of the capital volume is large, with high investment ability. However, due to the greater influence of individual subjective judgments, They tend to focus on certain types of industries in order to achieve larger returns rather than diversifying their investments, therefore, their volatility is also relatively high. And volatility is generally positively correlated with the subjectivity of esteem need investors.

2.3.2. Advice for Esteem Need Investors

Esteem need Investor has strong professional ability, everyone has been successful according to their own theory, therefore there is a huge difference between individual cognition, and when special events occur, there will be large gains and large losses. For such investors, they should focus more on the overall situation and not be limited to their own thinking logic, so as to reduce the volatility and improve long-term returns.

2.4. Self-actualization Need investors

2.4.1. The Characteristic of Self-actualization Need Investors

Self-actualization needs, as the highest level of needs in Maslow's theory of needs, focus on reaching their full potential and value, and are rarely disturbed by external emotions. They are directly or indirectly involved in investment activities, but the demand for returns is much lower than that of the other four types of investors. For Self-Actualization needs investors, they are committed to exploring the laws of market operation and the nature behind various economic phenomena and hope to propose groundbreaking theories to achieve self-worth. Their research results can directly improve returns or reduce risks to a certain extent or give the government a theoretical basis for regulation. Therefore, their research results have a high reference value for all types of investors in the entire market.

Unlike the other three categories of investors, self-actualization needs investors are small in number and are mainly made up of theoretical economists, applied economists and research-oriented talent in the field of finance. Although the composition of self-actualization needs investors is simple, due to different segments, different research methods used, and different positions, they may also come to completely opposite conclusions. At the same time, there is no theory that can fully explain all the behavior of the market and all the unexpected events. Based on the above two points, self-actualization needs investors have difficulty fully applying theory to practice. Long-Term Capital Management's near-bankruptcy in the global financial oscillations triggered by the Russian financial turmoil suggests that it is difficult to rely entirely on self-actualization needs investors at this time. In general, self-actualization needs investors provide theoretical support for practical activities, their investment activities are extremely rational, almost unaffected by market sentiment, and in most cases, the investment returns under the support of theory are much higher than the market average. But subject to the constraint that the theory cannot be effective in any case, they suffer greater losses when external conditions invalidate the theory.

2.4.2. Advice for Self-actualization Needs Investors

Self-actualization needs investors have the strongest understanding of the market as a whole, but fail to achieve the high returns expected when the theory fails. This can be confirmed by Long-Term Capital Management and economists represented by Fisher. Therefore, for self-actualization needs investors, it is important to focus on the limitations of the theory (i.e. when it may fail) and to be aware of extreme conditions that affect the theory.

3. THE MORAL DILEMMAS OF MASLOW'S THEORY WHEN IDENTIFYING LEVELS

The disadvantage of Maslow's theory is that when modern people recognize their own hierarchy, they often fall into moral dilemmas [9] that Maslow ignores the moral factor of human beings. However, the moral factors that Maslow ignores [10] are mainly manifested in the field of economics as social investing goals (SIG) and economic investing goals (EIG), which have no complete boundaries between the two, and the two can also be transformed into each other. The factors that influence people's investment strategy bias (SIG) or (EIG) are complex, such as religion, cultural background, growth history, etc. The point is that all four levels are influenced by these factors, so we do not consider moral factors when identifying levels. The most important way to identify the hierarchy is to find the most important needs for investments according to Maslow's theory.

According to the level of the level to avoid the shortcomings of the level, the investment plan is set according to the investment needs of the layer, and the investment plan is avoided from excessive trading and being affected by social interaction [9] and deviating from the investment plan made based on the main demand. What needs to be emphasized here is that Physiological Need Investor, safety need and love need Investor, which are made up of non-professional investors and families, compared to other esteem Need Investor and self-actualization needs investors which are mainly made up of professional investors and companies' investors [10] are more susceptible to social interaction.

4. CONCLUSION

This paper classifies investors by using Maslow's theory and explains how to recognize hierarchies and the meaning of recognizing hierarchies. Studies have shown that investors can be broadly divided into four categories. And then through this paper, people can recognize that the hierarchy can reduce over-trading, reduce the impact of social interaction and avoid changing demand-centric investment schemes. This can fundamentally ensure that the investor's investment plan does not deviate too much from the initial goal to improve returns.

At the same time, there are two aspects that deserve further study. The first is the connection between the four types, only from the perspective of demand, the four can fully transform each other, provided that the needs have changed. However, in some special circumstances, such as natural emergencies, government policy regulation, and special conditions for investors themselves, there is a possibility of large-scale hierarchical conversion. Specifically, what conditions are achieved that trigger large-scale hierarchical transformation, and what are the basic laws of the specific relationship between the hierarchical transformation. Second, there is or is there any difference between individual behavior and group behavior in the field of investment. This paper uses Maslow's theory to classify individual investors, but it does not consider whether the individual groups of investors with similar characteristics will change their characteristics. Group psychology theory holds that regardless of the quality of individuals, they are easily affected by groups when forming groups, and are more emotional and irrational. This is extremely important in investing, as investor sentiment is an important factor affecting the market. Clarifying this is an important basis for the full application of Maslow's theory to investment and markets.

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