Abstract

This thesis focuses on how individuals valuate risky investment prospects and
how they make their investment decisions. For this purpose, investment frac-
tions into risky investments over multiple periods are monitored and analyzed
for three experiments and different treatment groups. The results show that
a lower overall probability of a loss can incentivize participants sufficiently to
display a higher preference for it than for the investment with a higher prospect
theory valuation. Traditional decision models, such as cumulative prospect
theory, fail to include the overall probability of a loss as a meaningful component
in the decision-making process. The regression results also support the notion
that individuals feel losses stronger than equivalent gains, which is referred to
as loss aversion. The understanding of the importance of these factors allows
the creation of optimized investment products, that maximize investors' value
at a set cost.

Key words: prospect theory, overall probability of a loss, loss aversion,
repeated investing