4 Shame and stock market losses

The case of amateur investors in the US

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Losing money evokes a host of emotions, most of them painful. In his earliest work, Adam Smith wrote of the “embarrassment” and shame associated with financial losses, with bankruptcy being “the greatest and most humiliating calamity” of all (2010 [1776]: 149). More recently, the financial crisis of 2008 has been defined by shame, guilt, and anger, both at the individual and collective levels (Brasset and Clarke 2012). As United States Treasury Secretary Hank Paulson observed, “we have in many ways humiliated ourselves as a nation” (2008). These emotions may be particularly troubling for Americans, used to regarding their country as among the world’s financial powerhouses, and inclined to view making money as a sign of good character, intelligence, and a host of other positive traits (Weber 2002 [1905]; Franklin 2011 [1748]). Losing it, on the other hand, makes one a fool; and as mid-century essayist Max Lerner put it, “there is no crime in the cynical American calendar more humiliating than to be a sucker” (1949: 300).

Investing in stocks is a realm of finance where most participants lose money. Even when the value of investments does not sink below the original purchase price – the common-sense version of losing money – the vast majority underperform the market, which means that they lose ground relative to their financial context (Malkiel 2005).[1] This holds for the investments of finance professionals as well as amateurs, in the US and elsewhere (Barber and Odean 2000; Barber *et al*. 2009). Yet Americans continue to participate in this losing proposition in numbers far outstripping their counterparts elsewhere (e.g., Paiella 2007). For finance professionals, the emotional and economic risks of such losses are lower than for amateur investors: as long as the professionals lose *less* than their competitors, they can maintain their salary and status (O’Barr and Conley 1992). But when amateurs lose money, there is simply loss, both of money and of “face.”

Under these circumstances, one would expect amateur investors to be particularly sensitive to losses; all the more so if there was any reason to see themselves as having been duped, or played for suckers. Indeed, well-known financial frauds – starting with the South Sea Company and Mississippi Company scandals of 1720 – caused amateur investors to desert the stock market for a generation or more afterwards (Harrington 2012). But the pattern has not held in the twenty-first century United States, despite evidence of rampant fraud, from the Enron

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accounting scandal to the role of formerly trusted institutions like Goldman Sachs and Fannie Mae in precipitating the subprime mortgage crisis (Harrington forthcoming; see also Shapiro, this volume). None of these events has significantly decreased Americans' participation in the stock market. On the contrary, the nation's retail investors still own about $5.5 trillion of US corporate equities, contributing just over 25 percent of total market capitalization, dwarfing the ownership stakes of pension funds and equal to the holdings of all American mutual funds combined (Financial Services Roundtable 2009: 12). Although the distribution of stock ownership among Americans remains highly stratified (Wolff 2010), the 2009 figures still represent an increase of 20 percent over 2002 – meaning that amateur investing remained robust through the multiple crises that have struck financial markets since the beginning of the new millennium.

Elsewhere, I have proposed *why* this is the case, for reasons including the lack of pension security in the US, combined with tax policy that favors investment income over earnings from work (Harrington 2008, 2012a). In this chapter, I want to address *how* this continued participation in the stock market is possible. That is, I will examine how people continue to participate in an activity where they know they are being deceived and defrauded. This phenomenon bears further investigation in light of work by Goffman and others suggesting that financial loss and failure due to fraud produces shame that can destroy the self symbolically, leaving victims degraded and "socially dead" (Goffman 1952: 460; see also Garfinkel 1956). Goffman argued that individuals who have been conned shun attention afterwards, preferring to repair the damage they've sustained in private. But my investigation of the repair work done by defrauded investors suggests that, rather than retreating from social life, they used small group interaction to cope with their predicament (Harrington and Fine 2000).

Drawing from data on amateur investors in the United States, this chapter explores the practices through which social actors adapt emotionally so as to accept their losses and continue investing in the stock market. This, in turn, ties into a central concern of the economic sociology literature: problems of coordination in markets (Beckert 2009). At issue is how emotions guide investors through interaction processes such as valuation – a key component of market order (Stark 2009).

Theoretical orientations: focusing on identity and emotions in small groups

Previous research has interpreted victims' voluntary and repeated acquiescence to exploitative conditions as epiphenomena of common vulnerabilities in human decision-making, such as "escalation of commitment" (Staw 1976) and "sunk costs bias" (Arkes and Blumer 1985). In other words, the analysis has proceeded from the individual level of analysis, with a focus on cognitive errors. To examine the emotional-relational dimensions of financial fraud, we must turn to the symbolic interactionist tradition, which focuses on identity and self-presentation in group settings. In this literature, shame and shame avoidance are

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seen as the most significant emotions driving social behavior (Scheff 2006). Building on the work of Goffman, this literature offers a model of collective impression management that ties together the interactive call-and-response process of identity creation (Goffman 1956) with the repair work that follows stigmatization and "spoiled identities" (Goffman 1963). This approach can provide valuable insights on emotional dynamics in finance, as well as on the linkages between micro-level behavior and macro-level institutions (Harrington and Fine 2000, 2006).

The possibilities of a symbolic interactionist interpretation of financial fraud have not yet been fully exploited. Limitations include an analytic focus that remains at the level of dyadic, one-time events. This is the case with Goffman's own study of "adaptation to loss" (1952) as a response by individuals to short-term, hit-and-run interactions with con artists – an approach that leaves broad areas of empirical phenomena untheorized, including the long-term, group-level frauds documented elsewhere in the social psychology literature (e.g., Festinger *et al*. 1956) as well as in financial history (Harrington 2012b; forthcoming). The evidence that some frauds implicate sizable numbers of people over an extended period has not attracted the theoretical attention it merits. Both the cognitive or symbolic interactionist approaches leave open important questions about ongoing, group-level participation in fraud, of the kind observed in secular and religious cults and, more recently, in the stock market. These situations would seem to require a different approach – one that takes groups, rather than individuals, as the basic units of analysis, and one that treats the time frame of the fraud as open to investigation, rather than assuming short-term interactions.

This chapter extends symbolic interactionist theory to address the puzzle of participation in long-term, group-level frauds. This grounds the study in the social psychological foundations of sociology, whose core concerns were process, interaction, and the shared creation of meaning (e.g., Mead 1934; Cooley 1964 [1902]; Blumer 1969; Fine 1993). In addition to illuminating the role of emotions in finance, the intended contributions of the case study presented in this chapter are twofold. First, it seeks to return small groups to a central analytical position, focusing attention on a once-thriving research domain which has been neglected in recent decades (Harrington and Fine 2000; Fine *et al*. 2008). Second, since many frauds and con games involve economic losses as well as identity damage, this study contributes to the literature in economic sociology, which has largely overlooked small groups (Harrington 2008). Examining the emotions connected to fraud can fill the gap in the literature between micro-level phenomena and economic sociologists' findings on systemic, structural deception in financial markets (Harrington 2009).

Shame and the self

Identity and shame are closely related. Self-presentations, and the creation of "face," are largely geared toward the avoidance of embarrassment (Goffman 1967; Scheff 2003). Consequently, shame has been called the "master emotion

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of everyday life" (Scheff and Retzinger 2000). Financial markets, where the threat of "calamity" (Smith 2010 [1776]) looms over interactions, are among the many domains where shame shapes actors' behavior.

Shame is distinct from the related emotions of guilt and embarrassment in at least two important ways. First, while embarrassment is experienced in interaction, "shame is an individuator" – an internal sense of complete failure or worthlessness that requires "removal of the self from public view" (Garfinkel 1956: 421). Second, shame is accompanied by a sense of powerlessness, while guilt allows individuals to feel power in the possibility of making amends, or doing the right thing next time (Scheff and Retzinger 2000).

Shame results when individuals accept blame – from themselves or others – for failing to meet salient expectations, standards, or norms (Lewis 1998). These failures can be marked publicly through stigma, an attribute of individuals that signals a "spoiled identity" (Goffman 1963). Stigmatized attributes vary across time and place, but can include everything from physical deformities (such as a scar), to character flaws (the Seven Deadly Sins catalog some options), to contact with "unclean" people or things. The latter is an occupational hazard for those engaged in "dirty work," such as slaughterhouse workers and undertakers (Ashforth and Kreiner 1999).

Victims of con artists are vulnerable on the grounds of flawed character: they feel shame because they attribute their losses to their own greed and gullibility (Goffman 1952). Rather than feeling anger toward the con artist, the victims blame themselves. Goffman argues that the victims' loss of money is less distressing to them than losing an idea of themselves as competent, intelligent individuals. His claims about their adaptive strategies bear a strong resemblance to those used by the bereaved: people grieving the death of a loved one often sink into denial and lethargy (Kubler-Ross 1969), the kind of *in*action that Goffman described as characteristic of victims of con artists.

As a result, people who have been fleeced by con artists rarely go to the authorities for legal redress, because to do so means public exposure (and humiliation) as "suckers." Instead, the victims often turn to private means of identity repair, like seeing a psychiatrist or accepting the ministrations of the con artist's "cooler" – the con artist's accomplice who comes in after the deception is complete to offer "words of consolation and redirection" to the victim (Goffman 1952: 454). Coolers encourage marks to define themselves in such a way that their responses do not threaten future con operations.

Goffman's observations on the emotional responses of fraud victims may reflect an orientation peculiar to Americans. That is because, even when the market is in decline, merely owning a stock portfolio has become an important "positional good" (Frank 1986) in the US. As one observer remarked, "Lying about how well your investments have done has replaced exaggerating the size of the fish you caught" as part of status competition in everyday life (Weisberg 1998: 30). Thus, the burden of shame for American investors facing stock market losses due to fraud stems not just from loss of money, but also from loss of status.

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Goffman's work emphasizes the dyadic, one-off nature of a particular kind of con. This is not the case for American retail investors, who have been victimized as a group by faceless *juris persons* – firms and institutions – rather than by natural persons. In addition, the "con" has occurred over the course of years, rather than being a one-time event. Still, the desire to avoid shame and retain status might lead individuals to stay in a corrupt and costly situation. If so, we would expect their behavior to be directed primarily toward the preservation of their social identities, as against their pocketbooks. Lerner, for example, describes American culture as circumscribed by "a market system of caveat emptor in which the individual keeps himself continually on guard against being made a 'sucker'" (1957: 16, 377). This notion of being "continually on guard" alludes to the self-protective aspects of identity work (Arkin 1981). In this sense, social identity can be regarded as a kind of armor designed to deflect or reduce the damage caused by shame.

Discursive processes help us cope with difficult emotions, whether the interaction occurs between "mark" and "cooler," patient and psychiatrist, or members of a support group. Indeed, Schwalbe and Mason-Schrock argue that group identity work is one of a cluster of "distress-reducing experiences" (1996: 122) that enable individuals to overcome the isolation, anxiety, and sense of inauthenticity caused by feelings of shame. O'Brien (2011) terms this activity "stigma management."

In these ritualized encounters, individuals present themselves in the hope that their identity claims will elicit what Goffman (1956) called "deference" – in other words, acceptance – from relevant others. But until the "chain of ceremony" occurs, the individual's claim remains incomplete and tentative:

> the individual must rely on others to complete the picture of him of which he himself is only allowed to paint certain parts … the part expressed through the individual's demeanor being no more significant than the part conveyed by others through their deferential behavior toward him.
>
> (1956: 493)

By implication, the repair work (Goffman 1971) necessary to restore identities tarnished or spoiled by shame must also take place in interaction settings.

We see this borne out repeatedly in empirical studies of stigmatized, marginalized groups. Homeless people who meet in soup kitchens and shelters tell each other how they "chose" life on the street – an account that repairs their identities by substituting agency for helplessness (Snow and Anderson 1987). Those employed in "dirty work" occupations form strong group cultures in proportion to the stigma they face, and attribute positive meanings to aspects of their work considered shameful by outsiders. As Goffman argues, this kind of transformation in emotions and identity cannot be accomplished by individuals acting alone. This is in part because "groups often can sustain beliefs that individuals cannot" (Ashforth and Kreiner 1999: 421).

This suggests how we might square contemporary work on stigmatized groups with Goffman's (1952) account of the victims of con artists – people so

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ashamed of their financial losses and perceived character flaws that they retreat from society. What Goffman describes (and Garfinkel elaborates in his 1956 work on degradation ceremonies) is very much an atomized, individual approach to coping with shame. And since Goffman's theories posited *action* (rather than emotions or beliefs) as the basis of social life, his primary interest was in the puzzling *inaction* of the con artists' victims: i.e., why they didn't go to the police. This approach leaves open the question: what happens to *groups* dealing with shame? And if fraud victims are not taking their cases to the authorities, what *are* they doing instead?

The empirical evidence suggests an answer to both questions: groups deal with shame by transforming it – for example, turning sources of stigma into sources of pride (Ashforth and Kreiner 1999). These studies support the theoretical work of Kuzmics (1991) on the "economy of emotions." Kuzmics observes that Goffman's work doesn't account for emotional change, such as the ways that interaction can transform shame into something less toxic to identity, such as anger. This group identity work allows members to function in society rather than retreating from it passively.

Kuzmics' insight can help us understand a broad range of emotional responses to fraud, such as the "escalation of commitment" observed among members of a spaceship cult when their leader's prediction that aliens would arrive by a certain date and time proved false (Festinger *et al*. 1956). While many left the group when "prophecy failed," a core of believers remained and undertook a discursive process that reinforced their beliefs, turning their unbearable shame into the far more manageable emotion of guilt. The group members concluded that they had simply misunderstood the aliens' message, instantly transforming themselves (in their own eyes, at least) from laughing stocks into "chosen" people who had made an understandable mistake. This enabled individuals who had sold their worldly goods, and quit their jobs in the expectation of a flying saucer invasion to face the family and friends to whom they had recently bid final farewells. Their mortifying task was made tolerable through group identity work.

This case vividly illustrates what Schwalbe and Mason-Schrock mean when they write that "forms of identity talk are adaptive responses to the material conditions of people's lives" (1996: 117). Their insight suggests that identity can show us what is emotional about finance. When material conditions deteriorate – as with becoming homeless, or losing money due to financial fraud – we should expect to find individuals engaged in group identity work to process their shame and distress.

(Re)framing emotional events

Among the specific emotion and identity management activities that occur in group interaction, one of the most significant may be the construction of what Goffman (1974) called frames: ways of defining people and events so as to integrate them into consensual reality. Frames foreground some information while downplaying other aspects; crucially, the selection of points to emphasize or

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minimize occurs in small group settings. That is, frames are the building blocks of which social worlds are made: “Frames are principles of selection, emphasis and presentation composed of little tacit theories about what exists, what happens, and what matters” (Gitlin 1980: 6). Significantly for the study of emotions in finance, framing turns out to be the central tool individuals use to manage risk and uncertainty, like investing in the stock market (Kahneman and Tversky 1979).

Although Goffman saw frame-construction as part of the innate, unconscious symbol manipulation activity that occurs in interaction, recent research suggests that groups actively select and promote frames to advance their interests (Reese 2001). So the interpretive process is also a negotiation, not only among individuals in a group, but among competing frames (Snow *et al*. 1986). For defrauded investors, this meant managing their emotions by developing frames to counter those applied *to* them by the press, the financial community, and their political representatives. Some frames portrayed retail investors – and investment club members in particular – as victims, others as greedy speculators who got what they deserved (see Harrington 2008 for a review). The investors I studied selected some elements of these frames and rejected others: but the one consistent element in their interpretations was the rejection of anything that would suggest passivity. So rather than withdrawing to repair their wounded identities, participants in this study took an active role in managing their emotions and selves.

Put another way, defrauded investors worked with each other to develop accounts of their losses that would allow them to save face publicly. As a research concept, accounts (see Orbuch 1997 for a review) build on Goffman’s theory of impression management. They are performances that present the self favorably and thereby influence the perception of others; often, we find them used for defensive or protective purposes, as in justifications or excuses that seek to forestall or repair damage to a social identity. Formally, they are “verbal statements made by one social actor to another to explain behaviors that are unanticipated or deviant” (Orbuch 1997: 456; see also Scott and Lyman 1968). Because accounts draw on culture, emotions, and meaning (Somers 1994), they are distinct from attributions, which are information-oriented causal statements. While accounts can contain attributions, feelings play an equally important role; the cognitive is bound up with the affective. Thus, accounts are “story-like constructions … including plot, story-line, affect and attributions. Individuals continually update and reflect on these accounts on the basis of feedback from others, and the collective stories within which individuals reside” (Orbuch 1997: 459). This means that accounts are: emotional, informative, highly dependent upon small-group interaction, and sensitive to larger cultural narratives. As a result, they make a valuable theoretical construct for exploring the emotional aspects of financial activities.

The empirical study presented later in this chapter explores how this process of constructing frames and accounts unfolded among American investors who had recently lost a great deal of money in the stock market, but were continuing

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to invest despite their knowledge of rampant fraud in the system. But first, it is necessary to review briefly what is meant by financial fraud and why the phenomenon is significant for a sociology of emotions.

The sociological significance of fraud

What happens when fraud on a massive scale is uncovered? How do investors cope when they discover they've been duped? As it turns out, one of the biggest gaps in our knowledge about emotions in finance concerns the experience of those who have been deceived: we know far more about those who commit financial frauds than we do about their targets (Harrington 2012b; forthcoming). This chapter addresses itself to that lacuna by examining the responses of American retail investors to deception by the companies in which they invested. Goffman (1952) termed the process of coping with fraud "adaptation to failure."

The financial history of the twenty-first century has so far provided a host of frauds and failures to which investors have had to adapt, from the accounting scandals at Enron, WorldCom, and Tyco, to the options-backdating scandal, to Bernard Madoff's contemporary take on the Ponzi scheme, to the 2008 subprime mortgage crisis. Most of these events have taken place in US-based firms (Cooper 2005). But Americans have met this news with surprising resignation and passivity. Even the Occupy Wall Street movement – which didn't emerge until three years after the 2008 crisis, and lost momentum within a few months – was not framed as a response to financial fraud, but rather as a diffuse public expression of frustration at income inequality (Bellafante 2011).

The absence of coordinated public expressions of anger directed specifically at deceptive accounting practices and other forms of financial misconduct may reflect the high level of "accepted fraud" (Galbraith 2004: 26) in the US stock market. Historically, this attitude seems to be peculiar to the American context: over the country's long history of booms, busts, and get-rich-quick schemes, frauds have had remarkably little effect on public support for and engagement with financial markets (Mihm 2007; Harrington 2012b, forthcoming). Indeed, Americans continue to invest in the stock market at much higher rates than their European counterparts (Tagliabue 2002; Georgarakos and Pasini 2011). Contemporary rates of stock market participation remain high even in contrast to previous generations of Americans, who fled the securities markets after major economic downturns like the Great Depression. Stock ownership by US retail investors has remained remarkably stable through the collapse of the dot.com bubble and the housing market, as well as the corporate accounting scandals and the subprime mortgage crisis. According to US Federal Reserve data, 51.1 percent of households were invested in the stock market as of the end of 2007 – slightly below the historic high of 52.2 percent in 2001 and well above the 1990 level of 34 percent (Bucks *et al*. 2009: 27). As of this writing, midway through 2012, the latest round of Federal Reserve data is not yet available for comparison; but an April 2011 poll conducted by Gallup found that American stock ownership is holding at 54 percent of households, equal to the level found by the

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same poll in May 2000 (Jones and Saad 2011).[2] The dearth of research on investment clubs makes it difficult to estimate changes in their stock market participation, but as of 2003, well after the dot.com bubble burst, investment clubs still owned $125 billion of worth of US stocks – including significant stakes in Fortune 100 firms like General Electric and Intel–and were pumping in new investment dollars at the rate of $190 million each month (NAIC 2003; Harrington 2008).

This is all the more remarkable given the substantial losses incurred by investors when firms are found to have engaged in financial fraud. For example, Karpoff *et al*. (2008) found that on *average*, a firm's share value plummets 41 percent when financial misconduct is reported. Recent examples include Bank of America, whose shares dropped by 60 percent – a loss of about $50 billion to shareholders – after the firm was sued for falsifying information about its acquisition of Merrill-Lynch (Davidoff 2011). As a direct consequence of the corporate frauds at Enron, WorldCom, and Tyco, American investors lost an estimated $236 billion (Public Citizen 2002). Even for those who did not hold shares in firms that committed fraud, they lost money in the overall decline in share prices due to investors' loss of confidence in the stock market.

The persistence of retail investors – that is, investors who are not financial professionals – in the face of such widespread losses, along with overwhelming evidence of deception and corruption at the highest levels in financial markets demands explanation. How is such robustness and resilience possible? At a practical level, how have investors continued participating in a market system that has shown itself to be corrupt at many levels? While we can make some educated guesses as to the reasons *why* Americans continue to invest in a market system that has violated their trust, we know almost nothing about *how* they do it.

To this end, I will propose a model of emotional responses to financial fraud, illustrated with anecdotes from my own field research among American retail investors: individuals whose contributions to the stock market fuelled the prosperity of the 1990s, and who lost significantly when the dot.com bubble burst and the revelations of corporate fraud began to unfold. My findings build on and expand Goffman's model by illustrating a set of circumstances that he failed to consider: long-term cons directed at groups rather than individuals. In this context, victims of fraud don't retreat passively under the weight of shame and stigma. Instead, they engage in collective identity work to repair the damage to their social selves.

The interview study

The defining emotion of American finance in the 1990s was "irrational exuberance" (Shiller 2000). Just months before the dot.com bubble burst, US publishers brought out three books (by three different authors) vying to make the most optimistic claims about the trajectory of the bull market: the publication of *Dow 36,000* in May 1999 was followed in June by *Dow 40,000*, in September by *Dow*

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100,000. These publications reflected genuinely remarkable events, albeit through a distorted lens. For example, on March 29, 1999 the Dow Jones Industrial Average – a group of stocks issued by 30 industrial firms, which have long been used as a barometer of the US stock market as a whole – closed above 10,000 for the first time in its history, having doubled its value since 1995; just five weeks later, the Index climbed another 1,000 points to close over 11,000 – the fastest run-up in its history. This frenzy culminated on January 14, 2000, when the Dow closed at what was then an all-time high of 11,722.98, followed by a descent almost as swift as its rise, with the index dropping almost 3,000 points over the next few months.

Among the most notable legacies of this extraordinary period was a shift in what could be called the "investor class." Once limited to a tiny elite among America's wealthiest families – the 1 percent of adults who owned stocks in 1900, which by 1952 had risen to just 4 percent – investing in stocks became a mass activity, involving over half the US adult population by the end of the twentieth century (Geist 1999). Much of this growth in "market populism" occurred during the 1990s. For example, at the beginning of that decade, about 21 percent of American adults owned stocks; seven years later, the percentage had more than doubled, rising to 43 percent; by 1999, the figure was 53 percent, where it has held steady despite the market downturn (NASD 1997).

Investment clubs were a major source of this growth in the investing population: as do-it-yourself mutual funds, they made it easy for first-timers to start buying stocks and learning about the market. The clubs typically involve 10 to 15 people who contribute an average of $35 each – the mean cost of a single share on the New York Stock Exchange (Thaler 1994) – at monthly meetings; the group then allocates this investment capital to a portfolio of stocks they own in common. In this respect, the designation "club" is somewhat misleading: while investment clubs are voluntary associations, their ownership of stocks subjects them to legal, accounting, and taxation requirements much like any small business. Perhaps more importantly, the clubs have significant economic clout: by the late 1990s, an estimated 11 percent of American investors – about 20 million people – belonged to an investment club, pouring hundreds of millions of dollars into US stocks every month (NASD 1997). Since "firms commit fraud in order to get funds from investors" (Povel *et al*. 2007: 1249), all this new investment flooding the market presented a tempting target for corporate deception.

This is not to blame retail investors for being conned. In fact, as recent economic research concludes,

> it is pointless to blame investors for the abuses [of corporate corruption] by arguing that they were careless or naïve when making their decisions … it may have been fully rational for them to trust publicly available information in many cases, instead of carefully monitoring firms that requested funds.
>
> (Povel *et al*. 2007: 1250)

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Rather, from a sociological viewpoint, studying American retail investors in the late twentieth and early twenty-first century presents an opportunity to examine how emotions are experienced and processed in financial contexts.

Knowing that identity repairs occur in small group interactions, we can begin to understand why investors might continue to participate in investment *clubs* following the market meltdown. Having had a brush with "social death" through their potential loss of one of the most valued social identities in the late twentieth century (that of "investor"), individuals would need to turn to each other in order to repair the damage. In my interview sample, even those who were no longer members of the clubs I had originally studied in 1998 continued to rely on small groups of trusted persons for advice, consolation, and recognition that their identity as investors remained intact. Even when they were not actively buying and selling stocks, the very act of going to investment club meetings or consulting with their financial advisers was meaningful. *Inter*action was the remedy for the identity damage investors sustained as a result of deception in financial markets, and so small groups became *more* important to those individuals as the crisis deepened.

The sample

The data for this chapter are drawn from interviews conducted in 2004 with 50 investment club members – 28 men and 22 women – in the San Francisco Bay Area. This group represents a subset of the individuals with whom I conducted participant observation between 1997 and 1999, as part of a larger, multi-method study (see Harrington 2008 for details on research methods). Since not all of the clubs I had followed in the 1990s survived the market downturn, I wasn't able to interview all 83 of the original participants in the earlier part of my research; many had left the Bay Area and were out of touch with other club members, so I was unable to trace them. However, by the time of my 2004 follow-up study, four clubs were still in operation with a largely unchanged cohort of members, and I ultimately managed to find and interview over half of the members of the three clubs that had disbanded. My questions focused on whether and how their investing behavior had changed following the revelations of financial fraud by American companies over the previous three years.

In this regard, it was useful to begin the interviews with one of the most difficult questions: "How much money did the club lose after 1999?" Of the four clubs which remained in business, all had lost substantial sums – most estimated the loss at between one-third and one-half of the club's pre-crash portfolio value. Perhaps tellingly, few of them kept detailed enough records for me to confirm these figures independently; maybe not knowing exactly how much they lost was part of what enabled them to survive. Among the three clubs which had disbanded, the members I interviewed were vehement that money had nothing to do with their decision to split up, citing other factors, such as fragile relationships among members.

Table 4.1 summarizes some key demographics and the financial status of the seven clubs at the time of the follow-up study. For the groups which remained

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Table 4.1 Investment club demographics and performance

Club	*Years together*	*Gender composition*	*Compound annual return from inception to February 2004 or date disbanded (%)*
Portfolio Associates	Since 1956	All men	24
Valley Gay Men's Investment Club	Since 1997	All men	16
Ladies With Leverage	Since 1994	All women	3
California Investors	Since 1991	All men	–2
Bulls & Bears	1992–1999	Mixed gender	30
Asset Accumulators	1992–2002	All women	22
Educating Singles Against Povery	1994–2002	Mixed gender	9

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intact, I was able to use their current records to calculate their annualized internal rate of return – a standard performance measure used in the finance industry as well as by many investment clubs. For disbanded clubs, I spoke to the treasurers and either obtained their last accounting statement or used the treasurer's best estimate of the group's returns. While these estimates are obviously less reliable than accounting statements, my goal was not to document rates of return with precision, but rather to establish a context for the adaptation strategies the interview participants had developed. To put these figures in broader perspective, investment clubs across the US earned an average 12.6 percent annual rate of return on their portfolios since their inception – somewhat above the average for American stocks over the past century, but well below the annual return rates of those stocks during the 1990s, which sometimes exceeded 30 percent.[3]

While it would be unwise to rely too heavily on these figures, there does appear to be a surprisingly weak relationship between profits and investment club participation. That is, clubs that were doing poorly (such as California Investors) didn't necessarily disband, and those that were doing better financially (like Bulls & Bears) didn't necessarily stay together. This "loose coupling" (Meyer and Rowan 1977) between financial payoffs and perseverance in investing may have provided participants with some valuable flexibility in reframing their experiences on the receiving end of corporate deception. So rather than isolating themselves, retail investors were able to maintain their lines of action via their identity-related *inter*actions.

Findings

Shock and stasis

Like the "marks" in Goffman's study of con artists, most of the investors I interviewed experienced a period of shock and paralysis upon learning that they had

been deceived. Many said that they "froze" when the news broke about Enron, WorldCom, and other financial frauds: unsure what the declines in stock valuations meant, or how long they would last, the majority of participants in this study just stopped buying or selling stocks. Some participants were still in that state of suspended animation when I interviewed them in February 2004. As Carla of the disbanded mixed-gender club ESP put it,

> I don't know whom to trust. I'm not sure if [our] system is wrong, but [it] assumes that you can trust firms' financial statements, and I have no idea what to do now that we know you can't trust anything firms tell you.

Like Carla, other participants in my study expressed feelings of resignation rather than betrayal at the uncovering of the fraud perpetrated on them. Neither angered nor energized by the crisis, most said they were frightened, both by the losses they had already experienced and those that the future might hold. Still, fear still did not motivate change: they kept their money in the stock market rather than "cashing out."

They maintained this stasis in part by framing their situation as offering no alternatives to remaining invested in the stock market. They selectively ignored less risky options available to them – such as FDIC-insured savings accounts or certificates of deposit – and acted "as if" they had no choice as to where they could invest. Troy of Valley Gay Men's Investment Club accounted for his continued participation in the market by asking, "Where else are we going to put our money? In the mattress?" This phrase recurred verbatim in several other interviews conducted for this study.

On the one hand, the financial losses these clubs and individuals experienced as a result of corporate fraud makes it surprising to see them invoke a rationale like "where else are we going to put our money?" After all, if their money had been stashed in the mattress, at least they wouldn't have lost it. Susan of Ladies with Leverage addressed this implicitly in her account: "I can't afford to leave [the market] … I have to make back my money." Since her club still owned 62 shares of WorldCom – by then delisted and almost valueless – and had lost everything they had invested in the TriTeal IPO (a firm described by Motley Fool as one of the "Worst Investments of the 1990s"), the prospect of making the money back with new investments seemed a little far-fetched. But her framing of events was also shaped by her feelings of attachment and loyalty toward her investment partners: "We did not lose money because we made bad decisions," she said. "We lost money because the market was sinking under its own corruption." The men of Portfolio Associates gave a similar account of their reasons for continuing to invest as part of the club, despite the shock and disappointment of their losses in the previous three years. When I asked them why they kept investing together, several of the men responded in quick succession:

CHARLES: Inertia.
DAVE: Habit.

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KEVIN: We're joined at the hip.
ARNOLD: We needed someone to commiserate with about the market.

All four answers foregrounded the paralysis described by Goffman as characteristic of victims of con artists, but with an important difference: the role of the group as a coping mechanism. All the clubs that remained in operation performed this kind of adaptive maneuver, helping the group members transition from "irrational exuberance" to consolation and the repair of identity damage. Members of the clubs which did not effect this identity reconstruction had to do it themselves – not alone, but in small groups other than their investment clubs – in order to continue investing. This process is detailed in the following two sections.

Denial as adaptation

Some investors adapted by simply refusing to acknowledge that they had been defrauded. As with the members of the flying saucer cult (Festinger *et al*. 1956), this strategy foreclosed the possibility of feeling shame. Perhaps the most eloquent expression of this radical reframing of events was provided by Stan of California Investors. When I asked the group when they knew the bull market of the 1990s was over, Stan rejected the premise of the question:

> I don't agree that the bull market ended. I don't believe there ever was a bear market. The bull just slowed down for a few years. I believe in the optimism of the people – people are going to create things and want things for themselves and their children, and that's going to keep the big wheel turning. And if you think it's over, you're making a big mistake.

Several other participants gave similar accounts, minimizing the impact of the ongoing financial scandals and shifting their focus to a notional "bright side." Tara, of the disbanded all-women's group Asset Accumulators, suggested that it was only a matter of time before stock prices recovered and vindicated her commitment to remain invested in the market:

> My husband wanted to sell everything when the market when down, but I convinced him to hold onto our stocks. And he trusted me because I'd been meeting with Asset Accumulators for 10 years and he thought I must know something! He would have sold everything if I hadn't convinced him otherwise; and now the stocks are going up again.

While not as extreme as Stan's position, Tara's framing of her experience suggests quasi-religious feelings of devotion to the ideology of capitalism. In fact, many participants spoke of their experiences in the market downturn using terms that would be familiar in any tale of sin and redemption: "I'm still a fundamentalist," said Berry of Asset Accumulators; "We never lost faith," said Skip of

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Portfolio Associates. By construing the news from Enron, WorldCom, and similar cases as aberrations rather than signs of pervasive corruption, these individuals sidestepped the shame they might otherwise have felt; instead, their accounts allowed them to experience position emotions about themselves, as loyal, steadfast, and congruent in their beliefs and actions.

The retail investor as knowing accomplice

A third group of investors coped by transforming shame into guilt – a perspective heartily encouraged by finance professionals and corporate media. As one investment adviser wrote to his clients, "the seeds of the current crop of corporate scandals were planted not by corrupt executives but by greedy investors and their Wall Street cheerleaders" (Curtis 2002). While WorldCom prepared to file the largest bankruptcy claim in US history, the *New York Times* rallied sympathy for the firm by noting that its crimes included falsifying accounting statements to avoid earnings shortfalls of 1/100th of one cent – an effort to avoid the economic punishment meted out to companies that missed earnings expectations, with miniscule underperformance often resulting in losses of 10 percent of the firm's market value (Berenson 2002). In this variation of the "I blame society" defense, corporations like WorldCom shifted the focus from their illegal activities to the alleged unreasonableness of investors and regulators.

Surprisingly, many of the participants in my study were quite willing to accept the blame. Many spoke of a sense of complicity in the decline of the bull market, as though their actions contributed to falsified accounting statements, corrupt auditing and governance practices and so forth. While the problems in these areas were clearly systemic, involving dozens of firms and hundreds (if not thousands) of finance professionals, the only anger the participants in this study expressed was toward themselves. Several used the word "delusional" to describe their thinking during the bull market, while others used phrases that hinted at a sort of temporary insanity: "We thought we were brilliant," one said; "We got greedy," said another. To the sins of pride and greed, Frank of Valley Gay Men's Investment Club added lust: "We were money whores back then – we would buy anything that would make us a buck." In this light, the financial losses that the participants experienced were interpreted as just punishment. But that punishment also provided emotional relief, allowing investors to stay in the market.

This self-blame co-existed with a surprisingly tolerant attitude toward corporate corruption. While one or two expressed shock at the revelations uncovered by the Enron trial, the majority treated the news as – literally – business as usual. Many expressed some version of the perspective voiced by Karen of the all-women's group Ladies With Leverage:

> My experience in the work world taught me that business people cheat all the time, so the scandals didn't come as a surprise. But in the 1990s, people

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> weren't looking that closely at the veracity of the numbers, either, because it was all good news. That's just human nature – why look a gift horse in the mouth?

Similarly, Greg – former president of the disbanded club Bulls & Bears – argued not only that he should have known better than to trust in the financial markets, but that he *did* know better, and participated nonetheless:

> I knew it was a sham back then. I was just riding it as long as I could. I remember being so surprised that a startup like Iomega was valued more highly than General Motors; there's no way a startup could be worth more than GM on the first day of trading. I knew there was cheating going on in the whole market, how some people got in on IPOs and some did not, and I knew I was only a two-bit player, because I had to buy stock on the open market. I knew there was favoritism among boards of directors. It was all a sham when people said "It's a new era, things are different now." I never believed it. And the scandals haven't damaged my trust in the system because I never trusted it to begin with. So some people got special deals from mutual fund managers – so what? I work at [a major defense contractor]: we see special deals all the time!

His former colleague Cate responded in a strikingly similar way, albeit independently of Greg, in a separate interview. On the one hand, she claimed to have gone into the market with her eyes open to the corruption: "We sort of knew the books were cooked; I kind of saw it coming." In the next breath, however, she reaffirmed her faith in the system in the abstract: "I never considered getting out of the market; I still believe in the business models, even though the top management is corrupt." This is reminiscent of the profession of faith made by some believers who disdain the corruption of clerical leadership while remaining loyal to religious institutions in principle. The analogy is fitting, since – as economic anthropologist Keith Hart points out – "economics has become the religion of our secular scientific civilization" (1990: 155).

Discussion and implications

The economist Robert Shiller once wrote, "investing in speculative assets is a social activity" (1993: 167). It is also an emotional one, as the case study in this chapter has illustrated. For the 50 individuals I studied, participation in the stock market evoked intense feelings, ranging from exuberance to shame. These emotions not only guided their behavior, but positioned and defined them within the social cartography of the twenty-first century.

Based on their experiences, we can theorize some ways in which finance is emotional. Perhaps the most important implication is that group-level identity work links the micro-level experience of emotion with macro-level institutions, such as financial markets. Successful framing and accounts enabled the

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participants in my study to keep investing in stocks after evidence of widespread corporate fraud led to massive losses in share value across the board. Instead of withdrawing from the market under the burden of shame, as Goffman's work on the victims of con artists would predict, these investors remained active in the stock market by turning to one another for identity repair and "stigma management" (O'Brien 2011).

The interview data also support Scheff's (2003) theory about the centrality of shame in social life, illustrating the central role of shame avoidance for investors coping with financial loss. The participants in my study developed several different methods to achieve this end, including denial (a common technique in Western societies; see Scheff and Retzinger 2000) and transformation (Kuzmics 1991). While some remained largely passive in their denial – simply acting as if nothing had changed – others actively worked to reframe their situations and account for themselves in ways that allowed them to continue investing. Some did this by arguing that evidence of corporate fraud represented an aberration, rather than a systemic con in which they had been victimized. Others transformed their shame into guilt, by acknowledging the pervasiveness of corruption in the stock market, but claiming that they were fully aware and complicit participants.

This volume sensitizes us to cultural variations in the experience and management of emotions (see Manning's chapter), so the findings of the present study must be treated cautiously when generalizing beyond the American case. This suggests some directions for future research. For example, cross-national studies could compare the emotions and coping methods of the American investors described in this chapter to those of investors in cultures where shame and being seen as a "sucker" may be less threatening to social identity. The many cases of financial fraud disclosed worldwide in recent years provide several promising opportunities. Both Russia and Iceland would make particularly good comparison cases, since the pervasiveness of corruption in their financial systems is on a similar scale to that found in the US (see Kramer 2009 and Sigmundsdóttir 2012). Do Icelandic and Russian investors continue to participate in the stock markets of their countries? If so, how do they manage the emotions associated with risk and loss? These questions have significant implications for global finance and market order: as we have seen in this chapter, investors' emotions affect the supply of capital they make available to firms. Thus, whether individuals in the many countries affected by financial fraud feel shame, and if so, how they respond, will affect the timing and extent of the markets' recovery. For pragmatic and policy reasons, as well as theoretical ones, these questions deserve further attention from researchers.

Notes

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1 The way to avoid these losses, as suggested by Malkiel and many others, is to invest in index funds; this means buying a share of the stock market overall, rather than investing in individual stocks, enabling investors to keep pace with the market's gains (of course, they also partake in the losses when the market goes down).
2 While the volume of trading on US exchanges is down sharply since 2008, and withdrawals from domestic stock mutual funds are up, it is not clear whether these trends represent a retreat from the market or the effect of an aging population cashing in investments as planned to fund their retirement (Popper 2012).
3 The performance estimates were calculated relative to the lifespan of each club (see Harrington 2008 for details).

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