

## Research Review: Red is bad, green is good

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Ron Bird | University of Technology Sydney | 21 September 2017 | [1.00 CE](#)

The evidence just keeps growing that factors totally unrelated to the fundamental operations of a firm play an important part in determining their market valuation. In the first of the papers outlined below, the authors show that colour (specifically red) impacts on our investment decision. The second paper is more conventional in that it outlines the impressive growth in the use of green bonds over the last decade.

### 1. In the red: the effects of color on investment behaviour

– William J. Bazley, Henrik Cronqvist & Milica Mormann | Swedish House of Finance Research Paper No. 17–16 | July 2017

Financial decisions in today's society are made in environments that involve colour stimuli. In this paper, the authors perform an empirical analysis of the effects of colour on investment behaviour. First, they find that when investors are displayed potential losses in red, risk taking is reduced. Second, when investors are shown past negative stock price paths in red, expectations about future stock returns are reduced. Consistent with red causing "avoidance behaviour," the red colour reduces investors' propensity to purchase stocks.

The findings are robust to a series of checks involving colour-blind investors and alternative colours to control for salience effects. Finally, the effects are muted in a cultural setting, e.g., China, where red is not used to visualise financial losses.

A contribution of this study is to introduce hypotheses from colour psychology and visual science to enhance our understanding of the behaviour of individual investors.

### 2. Green is good: How green bonds cultivated into Wall Street's environmental paradox

– Luke Trompeter | Sustainable Development Law and Policy Brief, Vol. XVII, No. 2, 2017 | May 2017

When the European Investment Bank issued the first green bond in 2007, few imagined this debt instrument would attract mainstream investors. Designed to finance projects ranging from climate change prevention to clean transportation development, green bonds were geared for socially responsible investors concerned with our planet's sustainability. However, by 2015, green bonds were issued by major corporations like Apple and municipalities like New York City at a record \$40 billion. Major players on Wall Street have taken notice and look to cash in on the rapidly growing green bond market.

With this new influx of investment and the bonds' tax-exempt status, clear standards for what constitutes a "green" project are required to ensure investors' money is actually being used to increase environmental protection and sustainable development.

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