



## How Retail Investors Manage Emotions and Make Decisions During Market Volatility in the Digital Era

Fandi Kharisma

Universitas Sains dan Teknologi Huazhong, China

[Fandikharisma@gmail.com](mailto:Fandikharisma@gmail.com)

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### ABSTRACT

Investor behavior in financial markets is a key area of research within behavioral finance and economic psychology, particularly as retail participation continues to grow in digital trading environments. While previous studies have explored investor reactions to risk and volatility, few have examined the subjective, moment-to-moment emotional and cognitive experiences of retail investors navigating market fluctuations in real time. This study offers a novel theoretical contribution by foregrounding the phenomenological dimensions of investing—how individuals emotionally construct meaning from volatility, loss, and uncertainty in the digital era.

Employing a descriptive phenomenological approach, we uncover the emotional, cognitive, and behavioral dimensions of investor experiences during periods of financial uncertainty. We conducted semi-structured interviews with 12 retail investors in Indonesia and applied thematic reduction techniques to identify the essential meanings embedded in their narratives.

The findings reveal that investors initially experience emotional shock and internalize financial losses, later developing adaptive strategies and redefining success in more reflective and sustainable terms. Digital immediacy and peer discourse amplify both emotional turbulence and opportunities for experiential learning, playing dual roles in the investor's journey.

These results suggest that investing is not purely a rational act, but a deeply human process shaped by emotion, identity, and social interaction. By introducing a phenomenological lens to behavioral finance, this study enriches existing literature and highlights the need to integrate emotional meaning-making into models of investor behavior.



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## INTRODUCTION

In recent years, the proliferation of digital trading platforms has significantly transformed the landscape of financial markets, particularly by broadening access for individual or retail investors. This democratization of investment, once dominated by institutional actors, has allowed a diverse population—ranging from millennials to freelance professionals—to participate in real-time trading with minimal barriers to entry (Gul dkk., 2020). Technological advancements, such as algorithmic recommendations, mobile-based trading applications, and instant access to market data, have fundamentally reshaped how investors interact with financial information and respond to market dynamics.

Alongside these developments, global financial markets have experienced heightened volatility, influenced by rapid geopolitical changes, public health crises, and economic uncertainties. Retail investors—often less equipped with institutional-level risk management strategies—find themselves increasingly exposed to the emotional and psychological impact of abrupt market movements. While extensive literature has addressed market volatility through quantitative modeling and behavioral finance frameworks, less attention has been paid to the subjective lived experience of

those directly affected by such phenomena. Financial decisions, especially under volatile conditions, are not merely rational or technical acts; they are embedded in emotional reactions, personal narratives, and social contexts.

Understanding how individuals perceive, internalize, and react to market fluctuations requires a research approach that values subjective interpretation. It calls for a deeper exploration of meaning-making processes that extend beyond numerical data or general behavioral patterns (Gupta, 2023). The complexity of human experience in the face of financial uncertainty—particularly in the context of digital immediacy—necessitates a phenomenological lens that prioritizes first-person perspectives. Through such an approach, this study seeks to uncover the nuanced realities faced by retail investors, offering insights into how they emotionally and cognitively navigate volatile financial environments.

Research on individuals' subjective experiences within complex financial environments has become an increasingly vital area of inquiry, particularly as the emotional and cognitive dimensions of investment behavior gain scholarly recognition. In the context of rapidly evolving digital finance, retail investors' lived experiences—especially during periods of extreme market volatility—offer critical insights into decision-making processes that cannot be fully understood through conventional economic models alone.

However, efforts to explore these experiential dimensions have been constrained by methodological limitations. Much of the existing research relies on quantitative paradigms, which, while valuable in identifying general behavioral patterns or economic outcomes, often fall short in capturing the nuanced, introspective, and emotional realities of individual investors. Survey instruments and statistical models frequently lack the flexibility and depth required to uncover how individuals make sense of uncertainty, risk, and personal financial loss.

This methodological gap has led to a fragmented understanding of the phenomenon, where core aspects of human experience—such as emotional disorientation, cognitive adaptation, and evolving perceptions of self-efficacy—remain underexplored or misunderstood (Gurkov dkk., 2020). As a result, dominant research approaches may overlook the richness of subjective meaning-making, thereby limiting their ability to portray the full essence of how retail investors confront and process market turbulence in a digitized financial ecosystem.

In attempts to understand how retail investors respond to market volatility, most existing approaches rely on established practical frameworks such as behavioral finance models, risk profiling instruments, or quantitative analyses of trading patterns. While these methods offer valuable insights into trends and aggregate behaviors, they inherently reduce complex human experiences into predefined categories or statistical variables. As a result, the intricate emotional and cognitive processes that occur in the moment of market uncertainty—such as fear, hesitation, or self-reflection—remain largely unexamined or superficially addressed.

These limitations constrain the depth of insight available, particularly when attempting to understand how individuals interpret and internalize their financial experiences. The subjective meaning of loss, the sense of personal responsibility, or the evolving understanding of success in investing are often diluted in generalized models that prioritize measurable outcomes over lived realities. Consequently, such approaches fail to capture the existential and interpretive dimensions of investing—dimensions that are critical for a holistic understanding of the investor's perspective, especially in the digitized, real-time market context.

To address these limitations, a phenomenological approach is needed—one that prioritizes the exploration of meaning as it is experienced by individuals themselves (Gyimah & Lussier, 2021). By focusing on the essence of lived experience, phenomenology provides a powerful alternative framework capable of revealing the emotional, cognitive, and situational richness that more conventional methods overlook. This study adopts that approach to uncover the nuanced realities of how retail investors engage with and make sense of market volatility in their everyday financial lives.

Previous studies have examined investor behavior under market uncertainty, often through behavioral finance theories and psychological constructs such as loss aversion and risk tolerance. While such models offer helpful generalizations, they tend to overlook how individuals make sense of

their investment experiences in emotionally charged moments. Research into the lived experiences of financial decision-making remains limited, particularly in the context of digital trading environments. Some qualitative studies have begun to explore investor narratives, but few apply a rigorous phenomenological lens to capture the depth of personal meaning. This gap presents an opportunity to better understand the subjective realities of retail investors in volatile markets.

This study adopts a descriptive phenomenological approach, rooted in Husserlian philosophy, to explore how retail investors experience and interpret market volatility (Hasan & Al-Dahan, 2019). The method allows for the investigation of personal meaning, free from theoretical assumptions, by focusing on participants' own narratives. This approach responds directly to the knowledge gap identified—namely, the absence of deep, context-rich understanding of how volatility is lived and navigated by individuals. Semi-structured interviews were used to access firsthand accounts of emotional and cognitive experiences. The analysis focused on identifying essential themes that reflect shared patterns of meaning across participants.

The article is structured as follows. The introduction presents the general and specific background, followed by a review of the knowledge gap and methodological rationale. The method section describes the phenomenological design, participant selection, data collection, and analysis procedures (Hoque dkk., 2024). The results section outlines the core themes derived from participants' lived experiences. Finally, the discussion interprets these findings in light of existing literature, and the conclusion summarizes the contributions, implications, and limitations of the study.

## **RESEARCH METHODS**

### **Study Design**

This study employed a descriptive phenomenological design, grounded in the philosophical tradition of Edmund Husserl. The approach was selected to capture and articulate the lived experiences of retail investors confronting market volatility in the digital era. Descriptive phenomenology emphasizes the exploration of participants' consciousness and their perceptions of specific phenomena, allowing for the extraction of meaning from direct subjective experience. Through this design, the study was positioned to reveal the essential structures of emotional and cognitive responses as experienced by individuals engaging with real-time financial market fluctuations (Hou & Zhang, 2024). The process of epoché was applied to suspend preconceptions, thereby enabling a pure description of the phenomenon as it was perceived by the participants.

### **Participants**

Participants consisted of individual retail investors actively engaged in the Indonesian stock market, specifically those who had experienced significant market fluctuations within the last 18 months. Selection followed purposive sampling criteria, targeting individuals aged between 22 and 40 years, with at least one year of investment experience via digital trading platforms. Inclusion criteria required participants to have experienced either financial gain or loss attributed to real-time market volatility and to be capable of articulating their reflections in a conversational interview setting. Individuals involved in professional finance or institutional investment were excluded to maintain focus on non-professional investor experiences (Jariyapan dkk., 2022). The final sample included 12 participants (7 male and 5 female), with a mean age of 31.4 years. Diverse educational and occupational backgrounds were represented, including freelance professionals, early-career employees, and university graduates, reflecting the demographic range of emerging digital investors.

### **Data Collection**

Data were collected through semi-structured, in-depth interviews conducted face-to-face and via secure online platforms (e.g., Zoom), depending on participant preference and location. Each interview was guided by an open-ended protocol designed to elicit personal narratives related to emotional reactions, decision-making processes, and reflections during episodes of significant market volatility. Interviews lasted between 45 and 70 minutes and were conducted in private settings to ensure participant comfort and confidentiality. All conversations were audio-recorded with participant

consent and transcribed verbatim for analysis. To maintain consistency and depth, the interview guide was piloted and refined prior to implementation.

### **Data Analysis**

Data were analyzed using thematic analysis within the framework of descriptive phenomenology. The analytical process involved several systematic stages: initial reading of transcripts to gain familiarity, identification of meaning units, and clustering of these units into themes that captured the essence of the participants' experiences. Reductive techniques, including eidetic reduction, were employed to distill invariant meanings from the narratives. The resulting themes represented the essential psychological structures of the phenomenon (Jiang dkk., 2024). The coding and categorization were supported by MAXQDA software, which facilitated traceability and organization of emerging patterns. Throughout the analysis, efforts were made to remain faithful to participants' voices and avoid interpretive overlays inconsistent with the Husserlian paradigm.

### **Ethical Considerations**

Ethical approval was obtained from the appropriate institutional ethics committee prior to data collection. All participants provided written informed consent after receiving detailed information regarding the study's purpose, procedures, and confidentiality assurances. Anonymity was preserved by assigning pseudonyms and removing identifiable data from transcripts. The study adhered to the ethical standards outlined in the Declaration of Helsinki and followed local regulatory guidelines for research involving human participants.

## **RESULTS**

### **The Emotional Shock of Sudden Market Losses**

Retail investors consistently described their first encounter with market volatility as emotionally jarring, marked by confusion, anxiety, and a loss of control. For many, the experience of watching investments decline rapidly in real-time led to acute psychological distress.

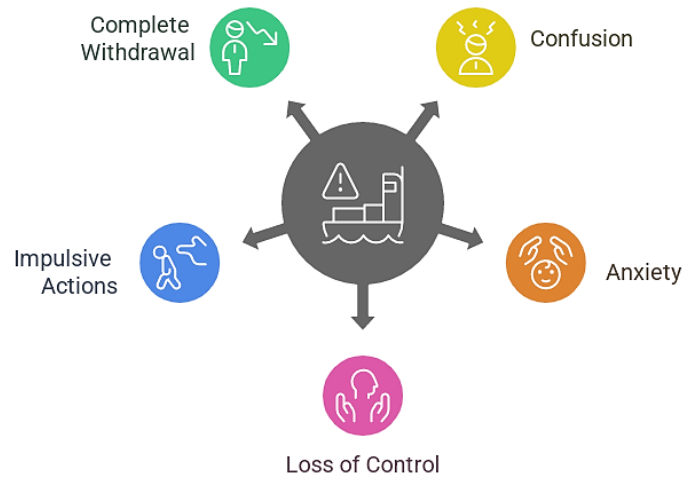
“I remember opening my trading app and seeing red everywhere. My portfolio dropped nearly 20% in one day. I just froze—I didn't know what to do, whether to sell or wait. It felt like I was falling into a hole.” (Participant 4)

This emotional disruption was amplified by the constant stream of push notifications, social media commentary, and online news. The digital environment created a sense of urgency, compounding emotional responses with a perceived pressure to act immediately.

“The news kept popping up on my phone. Tweets, Reddit, Instagram stories—everyone was panicking. I think I made a rushed decision just because I didn't want to be the last to get out.” (Participant 11)

The immediacy of digital updates made it difficult for participants to engage in reflective or strategic thinking. Instead, many resorted to impulsive actions or complete withdrawal.

### **Emotional Responses to Market Volatility**



### Internalizing Failure and Personal Responsibility

Several participants described internalizing their investment losses as personal failures, even when the market downturns were due to broader economic forces. These emotions often manifested as guilt, regret, and self-doubt, especially for novice investors.

“I kept blaming myself for being naive. I should’ve known better than to invest in something just because a friend told me to. When I lost money, it wasn’t just about the money—it felt like I failed myself.” (Participant 6)

Such feelings were intensified in cases where participants had encouraged family members or peers to invest alongside them, heightening the emotional burden.

“I convinced my cousin to buy the same stock. When it crashed, I couldn’t sleep for days. I kept thinking, ‘What have I done?’” (Participant 2)

This theme revealed how investment losses were not experienced as isolated financial events but as deeply personal and relational setbacks.

### Adaptation through Reflective Learning and Digital Literacy

Despite initial emotional turmoil, many investors began to adapt by engaging in reflective learning. Over time, participants reported developing new perspectives on risk and resilience. For some, the process involved actively seeking educational content online and reevaluating their investment strategies.

“After the first big loss, I started reading more—about diversification, about technical analysis. I realized I was treating the market like a casino before. Now I try to approach it with a system.” (Participant 9)

Others emphasized the role of community-based digital forums such as Telegram groups or Reddit subforums as sources of support and insight.

“There’s this group chat I’m in with other young investors. We talk about what we’re seeing, share articles, even our mistakes. It helps to know you’re not the only one struggling.” (Participant 12)

This theme highlighted a dynamic process: from emotional chaos to cognitive restructuring, where the digital environment transitioned from a stressor into a learning scaffold.

### Redefining Success Beyond Financial Return

Over time, participants reported a shift in how they defined success in investing. Initial expectations of high, short-term returns gave way to a broader understanding of sustainable growth, risk tolerance, and mental stability.

“At first, I just wanted to double my money fast. But now, I feel successful if I stick to my plan and don’t panic when prices drop. That’s a win for me.” (Participant 8)

This redefinition was often tied to emotional maturity and a deeper self-awareness about one’s financial goals and risk appetite. The shift illustrated how experience with market volatility cultivated not only technical insight but personal growth.

The lived experience of retail investors in the digital era of market volatility is marked by a complex interplay of emotional upheaval, personal accountability, adaptive learning, and identity transformation. Digital tools serve as both triggers of emotional distress and avenues for cognitive empowerment. These experiences reveal the profound subjectivity embedded in financial decision-making, challenging the conventional view of investors as purely rational agents.

## **DISCUSSION**

Retail investors’ lived experiences during episodes of market volatility revealed a psychological journey marked by emotional disorientation, personal responsibility, and eventual cognitive adaptation (Jiang & Martek, 2024). These findings address the central research question by uncovering how investors interpret and respond to financial uncertainty in a digital environment saturated with real-time stimuli and algorithmic cues.

The results demonstrate that participants experienced market fluctuations not merely as economic events, but as emotionally charged episodes that deeply affected their decision-making and sense of self. This study provides a unique contribution by illuminating the internal, subjective processes through which retail investors make meaning of volatility—processes often obscured in empirical financial research (Kalemlı-Özcan & Unsal, 2023). The narratives show that emotional reactions such as panic, guilt, and fear are not anomalies but integral to how individuals engage with modern trading platforms. Over time, these experiences fostered learning and transformation, as participants began to reframe success, redefine investment goals, and seek emotional balance alongside financial gain.

These insights resonate with, and extend, existing literature in behavioral finance, which acknowledges the role of emotion but rarely contextualizes it within the subjective experiences of individual investors. For example, (Katz dkk., 2019) posits that losses have a greater psychological impact than gains, a theme echoed in this study’s participants who described a lingering emotional burden from financial setbacks. However, unlike purely behavioral models, the phenomenological perspective adds depth by showing how these emotions evolve and influence long-term investment philosophies. Furthermore, the findings align with recent qualitative research by (Khan dkk., 2021), who reported psychological vulnerability among retail investors during the COVID-19 crash, but this study extends their work by exploring how digital immediacy and peer-driven online discourse further shape these experiences. By capturing these nuances, the study highlights the limitations of traditional data-centric approaches and supports the need for deeper qualitative engagement in finance research.

### **Implications of the Findings**

The findings of this study offer both theoretical and practical implications for understanding financial behavior in contemporary digital markets. From a socio-psychological perspective, the emotional responses and adaptive strategies exhibited by retail investors reflect broader cultural dynamics of immediacy, individualism, and risk-taking in financial decision-making. These narratives reveal that emotional engagement with the market is not peripheral but central to how investors learn, grow, and redefine success. Practically, the study suggests the need for investor education programs that incorporate emotional literacy and decision-making under uncertainty, particularly tailored for digital-native investor populations. Furthermore, platforms and regulators might consider the psychological impact of real-time data streams, push notifications, and social comparison triggers when designing interfaces and policies that influence retail trading behavior.

### **Study Limitations**

While the phenomenological approach enabled rich insights into the lived experiences of retail investors, certain limitations must be acknowledged. The study's reliance on purposive sampling and a limited number of participants from a single national context restricts the generalizability of the findings to broader investor populations (Khmeleva, 2023). Moreover, the retrospective nature of self-reported experiences introduces the possibility of recall bias, as participants may reinterpret past events through present understandings. The exclusion of institutional or professional investors also narrows the perspective to a specific demographic, which, while intentional, limits comparative insights across investor types. These limitations do not diminish the study's value but underscore the importance of contextual depth over breadth in phenomenological research.

### **Directions for Future Research**

Future studies could build on these findings by exploring comparative experiences across different investor profiles, including institutional actors or individuals in other cultural and regulatory environments. Longitudinal phenomenological designs may also offer insight into how investor perceptions and coping mechanisms evolve over time, particularly through repeated exposure to market turbulence (Kong dkk., 2023). Additionally, integrating digital ethnography with phenomenological interviewing could illuminate the influence of online communities and social media dynamics on emotional and financial behavior. Expanding the methodological scope in these ways would deepen our understanding of how subjective experiences shape economic action in the rapidly digitizing financial landscape.

### **CONCLUSION**

This study explored the lived experiences of retail investors facing market volatility in the context of digital trading environments, addressing the subjective dimensions often overlooked in traditional financial research. The findings revealed that emotional disruption, personal responsibility, and reflective learning are central to how individuals navigate unpredictable market conditions. Participants described initial psychological distress that evolved into adaptive strategies and redefined investment values, highlighting a complex interplay between emotion, cognition, and digital interaction. These insights provide a deeper understanding of investor behavior and contribute to closing the gap left by predominantly quantitative approaches. By offering a phenomenological perspective, the study enriches the discourse on financial decision-making and emphasizes the need for emotionally-informed support systems in retail investing. Future research may expand this work by examining cross-cultural investor experiences or integrating phenomenological methods with digital ethnographic tools.

### **CONFLICT OF INTEREST**

The authors declare no conflict of interest. All stages of the research, including data collection, analysis, interpretation, and writing, were conducted independently and free from any commercial or financial relationships that could be construed as a potential conflict.

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