Nonprofessional Investor Judgments: Linking Dependent Variables to Constructs

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ABSTRACT

There is limited evidence on the construct validity of the dependent variables commonly used in the literature on nonprofessional investor judgments. In this paper, we first survey the literature to understand the types of dependent variables typically used by researchers. We then conduct factor analyses to uncover linkages between dependent variables and nonprofessional investor judgment constructs. Our results suggest that, while the wide variety of dependent variables can appear on their face to represent many nuanced economic constructs, these measures load onto three distinct factors. These factors relate to nonprofessional investors' (1) expectations regarding future firm performance and value, (2) wholistic perceptions of the firm, and (3) evaluations of the risk associated with investing in the firm. Next, we provide recommendations for selecting, analyzing, and reporting dependent variables in future research. Finally, we conclude by providing directions for future research to further our understanding of the judgments made by investors.

Keywords: investor judgments, construct validity, experimental design

I. INTRODUCTION

The literature on individual investors' judgments has grown substantially since its inception in the 1990s. Studies within this literature have examined a wide variety of research questions with important implications, including how investors respond to information presentation (e.g., Hopkins 1996; Maines and McDaniel 2000), disclosure language (e.g., Hales, Kuang, and Venkataraman 2011; Rennekamp 2012; Tan, Wang, and Zhou 2014; Elliott, Rennekamp, and White 2015; Asay, Elliott, and Rennekamp 2017), earnings characteristics (e.g., Elliott 2006; Erickson, Hewitt, and Maines 2017; Koonce and Lipe 2017), disclosure venue (e.g., Elliott, Hodge, and Sedor 2012; Cade 2018; Elliott, Grant, and Hodge 2018), and sustainability information (Elliott, Jackson, Peecher, and White 2014, Guiral, Moon, Tan, and Yu 2020; Johnson, Theis, Vitalis, and Young 2020). Over the years, researchers have periodically written review articles to summarize the major areas of research within this literature with an emphasis on understanding the independent variables that influence investor judgment (e.g., Libby, Bloomfield, and Nelson 2002; Libby and Emett 2014). In this paper, we turn our attention to the other side of the equation – namely, the ***construct validity*** of the dependent variables used to represent nonprofessional investor judgments in this literature.[1]

From the perspective of scientific discovery, increasing the construct validity of the outcome variables within the investor judgment literature would improve our ability to compare studies within the literature, link important findings to the archival literature, and generalize findings to real-world settings. From the perspective of individual researchers, a clearer understanding of the validity of various variables would help us more effectively operationalize

[1] By construct validity, we mean the extent to which operational measures map onto the constructs they are intended to represent (Shadish, Cook, and Campbell 2002). We provide a glossary of key terms in Appendix A. To facilitate use of the glossary, we highlight in ***bold italics*** defined terms the first time they are used in the text.

specific constructs of interest, select variables that maximize experimental power for detecting meaningful effects, articulate our choices in manuscripts and during the peer-review process, and facilitate testing more descriptive models of investor judgments. Given these potential benefits, the construct validity of the dependent variables used in these studies merits explicit attention.[2] Our goals in this paper are, therefore, threefold: (1) improve our understanding of the constructs captured by common dependent variables, (2) provide future researchers with a useful resource when selecting (and later defending) their dependent variable choices, and (3) stimulate future research on investor judgments.

We first seek to understand the extent to which various dependent variables are used in the literature on investors judgments.[3] To do so, we identify research relating to individual investors published between 1990 and the first quarter of 2020 within six top accounting journals, and we catalogue the dependent variables collected in each study. Through this process, we identify 90 articles and their dependent variables. We group the dependent variables with similar wording and find that researchers have generally relied on eight types of judgments: firm value, expected future earnings, expected future cash flows, firm risk, earnings multiples, investment attractiveness, investment likelihood, and investment amount. These different types of judgments are elicited using dependent variables that are both qualitative and quantitative in nature, and they are elicited from a variety of sample pools (e.g., general public, students, and experienced professionals). This survey of the literature highlights that researchers have used many different

[2] As noted by Cook and Campbell (1979), "most applied experimental research is much more oriented toward high construct validity of effects than of causes. This is entirely understandable, for what one wants to see is evidence that the social problem being addressed is at least partially ameliorated – not any problem, but *the* major problem as generally conceived. Thus, great care goes into measuring outcomes, for unless a rigorous measure…is used which most competent persons believe to be reasonable, the research is likely to be seen as 'irrelevant'" (pp. 63-64).

[3] Most JDM studies present equity investors who buy and sell shares with dependent variables that are framed as judgments or hypothetical decisions. For brevity, we refer to these collectively as investor judgments and limit our focus to these dependent variables.

variables (at an operational level) to draw conclusions about many different types of investor judgments.

Having shed light on the range of variables historically used in the literature and the types of investor judgments researchers have examined, we next turn to an analysis of the extent to which these variables capture dimensions of distinct or related constructs. While the judgment categories we identify may be conceptually unique, they may be operationally redundant or capture different dimensions of the same underlying construct. We, therefore, use a two-stage empirical analysis to provide evidence of the ***structural validity*** and ***dimensionality*** of the dependent variables used in prior work and link these variables to the constructs they most closely represent. In doing so, we limit our analysis to the judgments of nonprofessional investors proxied by Amazon Mechanical Turk workers.

In the first stage, we use a 2 x 2 x 2 experimental design to create eight vignettes, each of which provides a brief description of a company. These descriptions vary in terms of both financial and nonfinancial performance. Our manipulations were informed by valuation frameworks that contain numerator effects (such as expected future earnings) and denominator effects (such as risk). In addition, we chose to manipulate ESG performance to create variation in firm characteristics that may affect participants' perceptions of nonpecuniary aspects of corporate performance. Each participant is randomly assigned to evaluate a single firm vignette using 38 dependent variables derived from our survey of the literature. With this data, we then use ***exploratory factor analysis*** (EFA) to examine the variance-covariance structure of these variables. Additionally, we specify a ***measurement model*** to evaluate the link between our experimental manipulations and the factors uncovered by the EFA.

Results from the EFA reveal that the dependent variables derived from the literature load onto three distinct constructs. The first factor is largely comprised of variables that relate to nonprofessional investors' expectations regarding future firm performance and value. The second factor is largely comprised of measures that relate to nonprofessional investors' wholistic perceptions of the firm (where these perceptions could reflect pecuniary and/or nonpecuniary aspects of corporate performance). The third factor is largely comprised of variables that relate to nonprofessional investors' evaluations of the risk associated with investing in the firm. As part of the construct validation process, we also test a measurement model that indicates that the first factor is most sensitive to our manipulation of future expected earnings, the second factor is most sensitive to our ESG manipulation, and the third factor is most sensitive to our risk manipulation.

In the second stage, we further verify the robustness and generalizability of the factor structure identified in the first stage to different research settings. To do so, we refer back to the studies we used to identify dependent variables to see which articles include either a full or partial set of experimental materials. From the 27 articles that include an instrument for at least one condition, we create a total of 93 vignettes. These vignettes offer substantially more variation in the information provided to participants than the eight firm vignettes we used in the first stage of our empirical analysis, but also in a way that is less controlled. As before, each experimental participant is randomly assigned to read one of these vignettes and then evaluate that firm using the same set of dependent variables as in our first stage. We use the responses to perform a ***confirmatory factor analysis*** (CFA) using the EFA ***factor loadings*** to assign the dependent variables to one of three factors. The CFA results indicate that the three-factor measurement model fits the data well.

Taken together, the findings from our EFA and CFA can inform researchers as they select, analyze, and report dependent variables. Going forward, we recommend the following five-step process for researchers: First, drawing on theory, specify a construct of interest. Our analyses point to three constructs that may often be of interest to researchers in this area. Second, select a set of dependent variables that are expected to capture different dimensions of the construct of interest. Our findings can inform this process for researchers interested in the constructs we identify. Third, provide evidence of the unidimensionality of the variables selected in step two. Fourth, report descriptive statistics for each of the individual dependent variables. Fifth, use the arithmetic mean to combine the dependent variables into a ***measurement scale*** to test hypotheses.

Following this five-step process yields several advantages. By selecting a set of dependent variables related to a specified construct, researchers can capture different dimensions of that construct, increase measurement scale reliability, and report results without introducing concerns about researcher degrees of freedom. This five-step process should also improve the consistency in conducting and reporting analyses by providing guidance on which variables are most likely to consistently load onto the same factor and on which variables to analyze separately versus jointly. In addition, this process constrains the selective footnoting of dependent variables. Finally, selecting a theory-driven construct and data-driven variables for measuring that construct should increase statistical power. For example, our results indicate that Factor 1 is most sensitive to our earnings manipulation, Factor 2 is most sensitive to our ESG manipulation, and Factor 3 is most sensitive to our risk manipulation. These findings suggest that variables that capture nonprofessional investors' wholistic perceptions might increase statistical power when examining factors related to individual investors' characteristics or preferences (e.g., investors' values, investment strategies, wealth, knowledge, etc.). However, when examining factors that are more likely to vary across firms (e.g., earnings, cash flows, etc.), variables that capture nonprofessional investors' expectations regarding future firm performance and value may be more appropriate.

The remainder of this paper proceeds as follows. In Section II, we describe our survey of the dependent variables used in the literature and report a descriptive analysis of these variables. In Section III, we report the results of our factor analyses. In Section IV, we recommend a five-step process for selecting, analyzing, and reporting dependent variables based on our analyses. In Section V, we highlight potential avenues for future research. Section VI concludes the paper.

II. SURVEY OF THE LITERATURE AND DESCRIPTIVE ANALYSIS

To link investor judgment dependent variables to the constructs they represent, we begin by surveying the experimental financial research literature to identify and catalogue the dependent variables used in prior work. We then identify potential constructs of interest by grouping the dependent variables together based on similarities in their wording (i.e., use of terms like firm value, earnings, cash flow, risk, price-earnings multiples, investment attractiveness, likelihood of investment, and investment amount). We also provide descriptive evidence on the frequency with which different categories of dependent variables are used.

Survey of the Literature

Identification of Studies

To identify key experimental studies on investor judgments in accounting, we focused on six accounting journals: Accounting Organizations and Society (AOS), Contemporary Accounting Research (CAR), Journal of Accounting and Economics (JAE), Journal of

Accounting Research (JAR), Review of Accounting Studies (RAST), and The Accounting Review (TAR). We then used the Brigham Young University Research Rankings database (Summers and Wood 2018) to identify all papers published in these journals between the years 1990 and 2018 that were classified as both financial and experimental.[4] We next reviewed these papers to ensure that each study is primarily an investor judgment and decision-making study. We include papers using professional analysts for participants. While these participants are not acting as investors, *per se*, they do make investment-related judgments, and we view them as proxies for sophisticated investors. By way of contrast, our sample of studies excludes experiments where participants acted in the role of a manager or an auditor. We also exclude studies examining assessments of creditworthiness, for practical, rather than conceptual, reasons because the vast majority of studies have focused on investments in equity securities. Our final scoping decision is to exclude studies using experimental markets because experimental markets studies face a different set of design issues than studies from the judgment and decision-making paradigm.[5]

To confirm the completeness of the identified papers, we also conducted an independent search for papers investigating investor valuation judgments via experimental methods during the time period from January 1990 to June 2019. Within the selected journals, we searched for the following phrases used as keywords: investor judgment, investor valuation, investor decision, and investor judgments. We then reviewed the resulting papers for relevance as described above. We checked for completeness by performing a forward search of the papers identified to look for

[4] The data was retrieved in January 2019. We began our search in 1990 because, as described by (Libby et al. 2002), several market inefficiencies were documented around this time period (for reviews, see Fama 1998; Thaler 1999; Kothari 2001), paving the way for a subsequent resurgence of experimental research on individual investors. The earliest paper meeting our selection criteria is Hirst, Koonce, and Simko (1995).
[5] See Libby et al. (2002) for a discussion of the benefits and costs associated with laboratory markets.

any related papers that also fit our criteria as described above and by conducting a hand review of all 2019 and quarter one 2020 volumes of the six journals identified above. Our final set of papers includes 90 articles (see Appendix B).

Identification of Dependent Variables

Having constructed a sample of JDM studies of equity investor judgments, we next examined each paper within our sample to identify the dependent variables used in the literature. For each paper, we recorded (1) the primary dependent variable(s) used in each experiment, (2) whether each variable was quantitative or qualitative in nature, (3) the participant type (analyst, graduate or MBA students, undergraduate students, Mechanical Turk worker), and (4) whether measures were combined or reported separately. Because we are interested in the key constructs of interest in this literature, we restrict our focus to primary dependent variables and, therefore, exclude variables of second-order effects (e.g., confidence in participants' judgments) and variables that are commonly used as process measures (e.g., management credibility).[6]

Descriptive Analysis

Grouping of Dependent Variables

Next, we grouped the dependent variables from the papers in our sample based on the similarity of the words used in the phrasing of the variables. This process resulted in the following groups: firm value, expected future earnings, expected future cash flows, firm risk, earnings multiples, investment attractiveness, investment likelihood, and investment amount. Figure 1 depicts the relative frequency with which researchers selected variables from each

[6] One study, Mercer (2004), uses variables that capture management credibility as the primary dependent variables of interest. Management credibility is a multi-dimensional construct and is an important construct in its own right (see Mercer 2005). However, because credibility is more commonly used as a process variable, we view this construct as outside the scope of our study.

category and Figure 2 depicts the variation in the number of dependent variables elicited within a given study.

[INSERT FIGURE 1]

[INSERT FIGURE 2]

Preliminary Assessment of Construct Validity

Our descriptive analysis and categorization is an important first step in identifying dependent variables and potential corresponding theoretical constructs of interest. This process is commonly referred to as the substantive phase of construct validation (Loevinger 1957; Flake, Pek, and Hehman 2017). Our categorization highlights that different dependent variables may capture unique types of judgments made by investors. However, little empirical evidence exists to inform researchers regarding the extent to which different dependent variables can differentiate between various constructs of interest. Further, our categorization is necessarily subjective and only offers ***face (or translation) validity***. However, face validity provides very limited evidence of construct validity. For example, the assumption of face validity can be wrong in the sense that the link between the operational variable and intended theoretical construct may be weak or non-existent. In addition, the community of accounting academics may disagree about the extent to which face validity is evident. In the case of experimental accounting research, relying on face validity has resulted in a host of dependent variables with little guidance on how to select, analyze, and report those variables. This limits the comparability of results across studies and could potentially lead to erroneous inferences.

To move beyond a reliance on face validity, we next test the psychometric properties of the variables using more rigorous, empirical approaches. Specifically, we use an EFA to determine the underlying factor structure of the dependent variables commonly used in investor judgment literature and a CFA to confirm the validity of the factor structure identified by the EFA.[7] For these analyses, we focus on nonprofessional investors and variables that are qualitative in nature. We discuss opportunities for future research to test the generalizability of our findings to both qualitative and quantitative variables and across different samples of investors (both nonprofessional and professional) in Section V.

III. EXPLORATORY AND CONFIRMATORY FACTOR ANALYSIS

Exploratory Factor Analysis

Background and Procedures

The basic assumption of factor analysis is that, for a collection of observed variables, there exists either a single underlying ***latent construct*** or a set of underlying latent constructs that can explain the interrelationships among those variables. To identify these underlying latent constructs (or factors), an EFA first partitions the total variance of the variables into two subcomponents: ***common variance*** and ***unique variance***. Common variance is the amount of total variance that is shared among the set of variables, while unique variance is the complement of common variance and represents variance that is either specific to a particular variable or results from measurement error. In an EFA, variables are allowed to freely cluster together based on their shared variance. This allows the data to speak for itself in identifying factors that explain the common variance among variables and identifying which variables best represent those factors.

To generate a sample of dependent variables to use in our analysis, we begin with the dependent variables identified from prior literature and combine variables that are nearly

[7] We obtained Institutional Review Board approval for the studies in this paper.

identical or redundant. In addition, we include several variables that elicit more general perceptions about the firm.[8] To minimize response variance attributable to methodological artifact, we adapt all scales to be 7-point Likert-style response scales and use qualitative labels for all variables (e.g., Very low to Very high; Very weak to Very strong; etc.). The use of qualitative scales also aligns with prior work suggesting that they are better suited for dependent variables elicited from nonprofessional investors – the participant group we recruited for our experiment (Frederickson and Miller 2004). These procedures result in 38 dependent variables that we use in the EFA. Each variable and its associated scale is included in Table 1.

[INSERT TABLE 1]

Psychology and other social sciences often use EFA to uncover latent constructs that describe individuals' stable traits and attitudes. In contrast, financial accounting experiments typically involve vignettes that include manipulations of key institutional features of an accounting setting (Libby et al. 2002). As part of our construct validation strategy, we apply the financial accounting approach to create variation across a variety of firm attributes that the dependent variables in the literature appear to capture (on their face). To create this variation, we use a 2 x 2 x 2 experimental design in which we manipulate a firm's fundamental earnings performance (high vs. low), investment risk (high vs low), and ESG reputation (positive vs. negative). The full-factorial combination of these firm attributes results in eight uniquely different firms. Combined with variation in the attributes and preferences of nonprofessional

[8] Including additional variables is consistent with best practices for construct identification and validation, which recommend beginning with a large, overinclusive set of variables (DeVellis 2016). Our decision to add variables that elicit nonprofessional investors' general perceptions was guided by research on attribute substitution, which indicates that when faced with a complex question, individuals may answer an easier one instead (Kahneman and Frederick 2002). Including general perceptions variables allow us to test whether other variables used in prior literature capture judgments that are distinct from individuals' general perceptions. Results for other variables are unchanged if we exclude these general favorability variables from the analysis.

investors, this approach ensures substantial variation in the theoretical constructs that the set of dependent variables might plausibly represent and allows us to uncover the underlying factor structure captured by the set of dependent variables. Importantly, the primary goal of the independent variable manipulations is to create meaningful variation in responses that allows the EFA to detect which dependent variables co-vary and which dependent variables capture distinct constructs. As we discuss later, a secondary goal of the independent variable manipulations is to help interpret the results of the EFA.

We manipulate the firm's fundamental earnings performance by telling participants in the high (low) condition that the company's managers forecast earnings growth to be 15% (1%) next year and that the average of the individual analyst forecasts also projects strong (weak) earnings growth over the next several years. We manipulate the firm's investment risk by telling participants in the high (low) condition that growth in demand for the company's products is relatively volatile (stable), causing future earnings to be somewhat unpredictable (fairly predictable). Additionally, we tell participants that individual analysts' earnings growth forecasts are considerably different (generally similar), with some significantly (slightly) lower and some significantly (slightly) higher than the average forecast of earnings growth. Finally, we manipulate the firm's ESG reputation by telling participants in the positive (negative) condition that the company is widely viewed as having a positive (negative) impact on the environment and is known for treating its employees well (poorly). Additionally, we tell participants that recent news coverage has praised (criticized) the company for supporting (damaging) small communities and opposing (paying) bribes to foreign governments. Each independent variable is presented as a separate bullet point, with the order of presentation randomly determined (see Appendix C).

Participants

Given our focus on nonprofessional investors, we recruited participants from Amazon Mechanical Turk. Using this recruiting platform allows us to obtain a large sample size at a relatively low cost. In addition, prior research suggests online workers can be a suitable recruitment pool for the accounting settings we use to validate the variables (Ferrell, Grenier, and Leiby 2017). However, we also collected information about the participants' investing experience.[9] Collecting this type of demographic information allows us to later test whether our results are robust to different characterizations of a nonprofessional investor.

Participants were randomly assigned to one of the eight experimental conditions and asked to respond to all 38 dependent variables.[10] The order of the dependent variables was fully randomized between participants. Each dependent variable appeared on a separate screen along with the firm information for their assigned vignette, which was displayed throughout the study. Our final sample includes responses from 999 participants, 52 percent of whom are male and who have a mean (median) age of 40 (38).[11] Further information about participant demographics can be found in Table 2.

[INSERT TABLE 2]

Results and Discussion

Table 3 presents the correlations among the dependent variables. The correlation matrix serves as the input that the EFA uses to determine the underlying factor structure. From the

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[9] We collected information on participant demographics and investing experience in a prescreening survey. In doing so, we followed best practices suggested by Bentley (2021).
[10] The mean (median) time that it took participants to complete the EFA was 10.8 (8.4) minutes. We paid participants who completed the entire study $2, an average effective hourly rate of approximately $11.
[11] We collected 1,027 responses from Amazon Mechanical Turk participants. From these responses, 26 were removed for not completing the entire survey. An additional two responses were not included in our final sample because the responses came from a duplicate IP address.

correlation matrix, eigenvalues for each factor can be computed to determine the relative importance of each factor in explaining the underlying data. We use parallel analysis to determine the number of factors with significant eigenvalues (Horn 1965). This approach compares the observed eigenvalues to eigenvalues derived from a Monte-Carlo simulated matrix with random data and the same numbers of observations and variables as the original data. Factors derived from the original data are retained when their eigenvalues are greater than the eigenvalues derived from the simulated data. Smaller eigenvalues are attributed to random noise. The result of the parallel analysis suggests that the appropriate number of factors to extract is three.[12] Based on these results, we conduct an EFA to extract three factors. We use a maximum likelihood estimation method and a direct oblimin oblique rotation. However, the factor solution is robust to other estimation methods and rotations.

[INSERT TABLE 3]

The EFA results are presented in Table 4, Panel A. The three-factor model explains 77 percent of the total variance in the 38 dependent variables, an adequate number of variables load on each factor, and there are few variables that load on multiple factors (with a factor loading cutoff of 0.30 – see Comrey and Lee 1992). Most items have high ***common variance*** or ***communality***, indicating that there is considerable overlap among the variables that load on the same factor. The ***item complexity*** score indicates the degree to which an item (or variable) reflects a single construct. The score will equal 1 if an item loads on exactly one factor, 2 if it evenly loads on two factors, and so on. The mean item complexity score from the EFA is 1.1.

[12] Empirical evidence suggests that parallel analysis is the most accurate method for determining the number of factors (Zwick and Velicer 1986; Velicer, Eaton, and Fava 2000). Alternative approaches include the eigenvalue greater-than-one rule (Kaiser 1960) and the scree plot test (Cattell 1966). Consistent with the results of the parallel analysis, these methods also suggest extracting three factors.

[INSERT TABLE 4]

Next, we verify the robustness of the factor solution by conducting EFAs with alternative specifications of nonprofessional investors in our sample. First, we restrict our sample to the 529 participants who meet the Center for Audit Quality's (CAQ), definition of an individual investor as an individual that (1) is an adult, (2) is the primary decision-maker of their household, or shares that responsibility equally with another household member, and (3) has $10,000 or more in investments, including stocks, bonds, mutual funds, IRAs, 401(k) plans, and the like (CAQ 2019). Second, we restrict our sample to the 567 participants who indicate that they have invested or have plans to invest in individual company stocks, consistent with prior research that often screens on or reports this type of information for Amazon Mechanical Turk participants (e.g., Rennekamp 2012; Koonce, Miller, and Winchel 2015; Asay et al. 2017; Kelton and Montague 2018; Cardinaels, Hollander, and White 2019). Finally, we restrict our sample to the 907 participants who indicate they have invested or have plans to invest in any of the following asset types: individual stocks, mutual/index funds, 401(k), or government/corporate bonds.

In untabulated analyses, we find that for each of the above alternative specifications for identifying nonprofessional investors, the dependent variables load on all the same factors and the same four variables cross-load on multiple factors in the same manner as the original analysis. Additionally, the correlation between factors and the amount of variance explained by the three factors is qualitatively similar as the previously reported EFA results. Note that the robustness of our results to these different specifications is not an indication that the definitions are interchangeable. Instead, the robustness tests only provide evidence that the factor solutions we elicit using an EFA on the 38 dependent variables are similar when we use any of these three subsets of the entire sample. Importantly, these results do not suggest that Amazon Mechanical

Turk workers are suitable participants for all nonprofessional investor studies. With regard to participant selection, because our focus is on dependent variable constructs, rather than independent variables, setting type, or task complexity, we refer researchers to the excellent guidance provided in prior work (Elliott, Hodge, Kennedy, and Pronk 2007; Farrell et al. 2017; Krische 2019; Libby et al. 2002).

With the factor solution in hand, the dependent variables that load on each factor provide some insight into the theoretical construct each factor may represent (see Table 5). Variables that load on the first factor relate to nonprofessional investors' expectations regarding future firm performance and value (i.e., expected future performance). They include earnings and cash flow forecasts, growth expectations, and stock valuations. Variables that load on the second factor relate to nonprofessional investors' wholistic perceptions of the firm (i.e., wholistic perceptions). They include a more diverse set of variables, some focusing on general perceptions and the favorability of the company's stock as an investment, and others focusing on changes in one's buy, sell, or hold position in the company.[13] We note that there is a high correlation between Factor 1 and Factor 2 suggesting that the wholistic perceptions captured by Factor 2 may comprise some of the aspects of expected future performance (i.e., Factor 1) as well as some potentially nonpecuniary components impacting investors' perceptions about a company (e.g., values, rather than value, assessments or hedonic aspects to investing). We further discuss this correlation in Section V when offering suggestions for future research. Variables that load on the third factor relate to nonprofessional investors' evaluations of the risk associated with investing

[13] Interestingly, the variables that are framed as hypothetical investment decisions (e.g., DV24, DV25, DV26, DV28, and DV30) do not appear to behave differently from variables that are framed as judgments. Despite appearing on their face to reflect decisions or choices (i.e., face validity), their statistical properties are not different than the general favorability variables. As we discuss in Section V, we call for future research to improve our understanding of the investor judgment and decision-making process, including understanding how the constructs we identify translate into actual decisions by investors.

in the firm (i.e., investment risk). They include evaluations of overall investment risk as well as expectations of stock price decline.

[INSERT TABLE 5]

While our approach is empirically driven, the interpretation of the factors can be subjective. To better link the dependent variables to the theoretical constructs, we specify a measurement model (see Table 4, Panel B) that allows us to evaluate the influence our three independent variables have on each factor. In our model, we first specify that each dependent variable load on either Factor 1, Factor 2, or Factor 3, based on the loadings from the EFA. In doing so, we exclude four variables that cross-load onto more than one factor. Second, we specify each factor to have a linear relationship to each experimental manipulation (with each factor as the dependent variable and the manipulations as the independent variables). Last, we allow for each of the three factors to co-vary with one another.

As reported in Table 4, Panel C, we find that the manipulation of firm fundamental earnings performance is most strongly associated with the first factor, the manipulation of ESG reputation is most strongly associated with the second factor, and the manipulation of investment risk is mostly strongly associated with the third factor. This provides confidence that our interpretation of the factor solution and associated underlying constructs is appropriate.

Confirmatory Factor Analysis

Background and Procedures

CFA is a form of structural equation modeling that is used to test or "confirm" the factor structure underlying a set of measures. In a CFA, a model is specified based on theory or a prior analytical result. In general, a CFA can complement an EFA in at least two important ways. First, using a new sample, CFA can be used to confirm that the factor structure revealed through an EFA was not a result of chance, and model fit statistics can be calculated to determine whether the model is a good fit for the data. Second, the hypothesized model can be compared against alternative model specifications.

In our specific case, the EFA revealed a three-factor model with the following identified constructs: (1) expected future performance, (2) wholistic perceptions, and (3) investment risk. The primary advantage of the EFA design that we used is that it ensured relatively powerful manipulations of theoretically important constructs (Libby et al. 2002). However, a potential concern with this design is that the observed three-factor model that came out of our EFA could have emerged as an artifact of the salient operationalization of the three constructs we manipulated.

In our CFA, we test the robustness and generalizability of the three-factor model using experimental materials from published studies investigating investor judgments. Starting with the 90 articles used in our descriptive analysis, we identify 32 papers that published either full or partial experimental materials. Using the experimental materials from these papers, we create a set of 93 experimental conditions for use in our CFA.[14] The rest of the experimental procedures are the same as those outlined for the EFA, except that the materials from the 93 published experimental conditions replace the eight vignettes we constructed for the EFA.

The 93 experimental conditions we extracted should be broadly reflective of the type of investment scenarios studied in the investor JDM literature. They include manipulations of a variety of important institutional accounting variables of interest, including: earnings guidance

[14] The 32 papers had published materials resulting in 129 experimental conditions. We eliminated materials from five papers because they were too long to reasonably present to participants on a single page. Next, some papers included materials for a greater number of conditions than others, with some providing materials for just one condition and others providing materials for up to 14 conditions. To avoid over-representing any one paper, we select up to four experimental conditions from each paper. For papers with more than four conditions, we select conditions randomly. Our final sample includes 93 experimental conditions from 27 published papers.

consistency, CSR/ESG performance, readability and other narrative disclosure features, information presentation and saliency, cautionary disclaimers, the frequency and magnitude of earnings beats, and the sign of firm performance. The materials also include several different disclosure mediums, including financial statements, footnote disclosures, periodic earnings announcement press releases, auditor reports, analyst reports, and social media feeds.

As was the case with our EFA, the independent variable manipulations are not of primary interest, *per se*. Rather, we are interested in testing empirically how well the factor structure identified by the EFA can explain the variation in participants' responses to the dependent variables. If the factor structure is effective at explaining the variation in responses to the dependent variables, it provides confidence that the factor structure we identify is reasonably generalizable for nonprofessional investors (as proxied by Amazon Mechanical Turk workers) across a wide variety of important accounting settings.

Participants

We recruited an independent sample of participants (who did not participate in the EFA) from Amazon Mechanical Turk, and we randomly assigned each participant to one of the 93 conditions. Each participant responded to the same 38 dependent variables included in the EFA and we again fully randomize the order in which they answered the dependent variables.[15] Our final sample includes responses from 998 participants.[16] Approximately 52 percent of

[15] The mean (median) time that it took participants to complete the CFA was 11.0 (8.1) minutes. We paid participants who completed the entire study $2, an average effective hourly rate of approximately $11.

[16] We collected 1,099 responses from Amazon Mechanical Turk participants. From these responses, 99 were removed for not completing the entire survey. An additional two responses were not included in our final sample because the responses came from a duplicate IP address. After removing these 101 responses, our final sample consists of 998 responses. We note that, because our focus is not on the independent variable manipulations, we determined the sufficiency of this sample size according to the number of factors identified through the EFA (i.e. 3). However, a more conservative perspective might instead consider the total potential dependent variables (i.e. 38). Most recommendations come in terms of either total N or the minimum ratio of N to the number of variables being analyzed. In terms of total N, recommendations have ranged from a minimum of 100 (Kline 1979; Gorsuch 1983),

participants in the sample are male and the mean (median) age is 40 (37). Further information about participant demographics can be found in Table 6.

[INSERT TABLE 6]

Results and Discussion

To conduct a CFA, we first specify and then test a measurement model similar to the one from the stage one EFA. After excluding the four dependent variables that cross-loaded onto multiple factors in the EFA, we map each remaining dependent variable onto one of the three factors based on the loadings from the EFA and allow for each of the three factors to co-vary with one another. The CFA model and factor loadings are reported in Table 7, Panel A. In Panel B, we present fit statistics for five goodness-of-fit tests: the ***model chi-square***, the ***Comparative Fit Index (CFI)***, the ***Tucker-Lewis Index (TLI)***, the ***Root Mean Square Error of Approximation (RMSEA)***, and the ***Standardized Root Mean Square Residual (SRMR)***. Overall, the model fit is good, with χ^2 = 2,359.67 (df = 524; p < 0.001), CFI = 0.958, TLI = 0.955, RMSEA = 0.059 (90% confidence interval = [0.057, 0.062], p for H_0: RMSEA ≤ 0.05 is less than 0.001), SRMR = 0.033. While goodness-of-fit tests are rarely definitive, the results of these tests provide preliminary evidence that the dependent variables we extracted from the literature are well captured by our three-factor model.[17] In addition, as was the case with the EFA, we draw

200 (Guilford 1954), 250 (Cattell 1978), or upwards of 500 or 1,000 (Comrey and Lee 1992). With respect of the ratio of N to the number of variables analyzed, recommended ratios have varied from 3 to 6 (Cattell 1978), 5 (Gorsuch 1983), and 10 (Everitt 1975). Our sample includes 998 participants, and we have a ratio greater than 25 participants per variable (998:38).

[17] χ^2 tests the null hypothesis that model fit is perfect. However, testing that the model fit is perfect is usually too conservative (particularly with large sample sizes), so alternative measures of model fit are often used in conjunction with χ^2. CFI and TLI ≥ 0.95 indicates good model fit, and CFI and TLI ≥ 0.90 indicates acceptable model fit. RMSEA ≤ 0.05 indicates good model fit, and RMSEA ≤ 0.08 indicates acceptable model fit. SRMR ≤ 0.06 indicates good model fit, and SRMR ≤ 0.08 indicates acceptable model fit. Indices that fall outside the specified cutoffs are generally considered to indicate poor fit. See Hu and Bentler (1999) for descriptions of model fit indices and justification for prescribed cutoffs.

similar conclusions when repeating these tests using various partitions of our sample to identify nonprofessional investors.[18]

[INSERT TABLE 7]

Next, we examine two alternative model specifications. First, we examine a one-factor model that would suggest that nonprofessional investors' responses to the dependent variables cannot meaningfully differentiate between different types of judgments. We find that a one-factor model (untabulated) does not fit the data well, with χ^2 = 4,980.33 (df = 527; p < 0.001), CFI = 0.898, TLI = 0.891, RMSEA = 0.092 (90% confidence interval = [0.090, 0.094], p for H_0: RMSEA ≤ 0.05 is less than 0.001), SRMR = 0.049. Second, we examine a two-factor model where Factors 1 and 2 are combined. The EFA (untabulated) revealed that Factor 1 and Factor 2 are positively correlated (ρ = 0.78) and both are negatively correlated with Factor 3 ($\rho_{1,3}$ = -0.45; $\rho_{2,3}$ = -0.49).[19] This two-factor model (untabulated) provides acceptable model fit, with χ^2 = 3,511.73 (df = 526; p < 0.001), CFI = 0.932, TLI = 0.927, H_0: RMSEA = 0.075 (90% confidence interval = [0.073, 0.078], p for H_0: RMSEA ≤ 0.05 is less than 0.001), SRMR = 0.035.

In summary, the three-factor model provides considerable improvement in model fit over the one-factor and two factor model, with only the three-factor model achieving CFI and TFI in

[18] We test several alternative specifications for identifying nonprofessional investors in our sample. First, we limit analyses to participants who meet the CAQ's definition of an investor (must be an adult, must be the primary decision-maker for their household or share the responsibility equally with another, and must have $10,000 or more in investments, including stocks, bonds, mutual funds, IRAs, 401(k) plans, and the like (558 participants). Second, we limit analyses to just those participants that are invested in individual company stocks or plan to invest in individual company stocks (607 participants). Finally, we conduct analyses after removing participants that indicate they are not invested, or have no plans to invest, in any asset type (individual stocks, mutual/index funds, 401(k), or government/corporate bonds). This results in 912 remaining participants. All reported CFA results are robust to these alternative specifications.

[19] Factors 1 and 2 are even more highly correlated in the CFA. A likely reason for this is that many of the experimental materials used in the CFA focused on firms' financial performance and omitted any information that might cause Factor 2 to diverge from Factor 1.

excess of 0.95.[20] Based on the collective evidence from our EFA and CFA, a three-factor model appears to provide "a parsimonious, substantively meaningful model that fits observed data adequately well" (MacCallum and Austin 2000). However, we note that there is no "true" model (Cudeck and Henly 1991; MacCallum and Austin 2000), and that construct validation is an ongoing process.

IV. RECOMMENDATIONS FOR SELECTING, ANALYZING, AND REPORTING DEPENDENT VARIABLES

Our findings provide guidance on the selection, analysis, and reporting of dependent variables for the experimental accounting literature on investor judgments. With a clearer understanding of the constructs that underlie common dependent variables, we recommend a five-step process that will help researchers select variables and analyze and report results.

Step 1: Rely on Theory to Identify the Conceptual Constructs of Interest

We recommend that researchers use a theory-driven approach to identify the conceptual constructs of interest prior to selecting dependent variables. Having performed an empirical validation of the dependent variables studied in prior work, our analyses point to three constructs that may often be of interest to researchers examining the judgments of nonprofessional investors.[21] There are two advantages to taking a theory-driven approach to construct identification and subsequent variable selection. First, clearly specifying conceptual constructs of interest helps place results into a broader conceptual framework, which should improve our

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[20] The three-factor model is nested within both the one-factor and two-factor models and improves model fit over the one-factor model (χ^2 Difference = 2,620.7; *df* difference = 3; $p < 0.001$) and two-factor model (χ^2 Difference = 1,152.1; df difference = 2; p = < 0.001).

[21] Certainly, future research is not limited to studying the three judgment constructs we identify. Rather, our analysis highlights three judgment constructs that have received significant attention in prior literature studying the judgments of nonprofessional investors.

ability to compare studies within the literature, link important findings to the archival literature, and generalize findings to real-world settings. Second, beginning with theory allows researchers to consider at the conceptual level how a given independent variable may affect different types of judgments made by investors.

Carefully applying Step 1 can help researchers select dependent variables that are a better operationalization of their conceptual construct of interest, which should increase statistical power to detect the hypothesized effect. For example, Factors 1 and 2 are positively correlated and should yield similar inferences (in expectation). However, dependent variables that capture nonprofessional investors' wholistic perceptions of the firm (Factor 2) may yield greater statistical power than Factor 1 or Factor 3 variables when examining independent variables related to nonpecuniary factors (such as ESG) or individual investors' characteristics (e.g., investors' values, investment strategies, wealth, knowledge, etc.). However, when examining independent variables that are more directly related to firm fundamental performance (e.g., earnings, cash flows, etc.), variables that capture expectations about future firm performance and value (Factor 1) may be more appropriate.

Fanning, Agoglia, and Piercey (2015) illustrate this recommendation well in their investigation of the effect different disclosure thresholds for pending lawsuits have on the judgments of nonprofessional investors. They state that because their "theory relates to how [their] manipulations of the litigation disclosures would influence investors' perceptions of disclosed litigation risk," they select a dependent variable that is closely related to capturing perceptions of litigation risk. They go on to say that other investment-related judgments may be impacted by their chosen independent variable, but "are likely to impound other noisy sources of variance because they are a less direct operational measure of [their] theoretical construct than litigation risk assessments." By following and explaining their theory-driven approach, they help readers understand their focus on investors' evaluations of risk and how they chose a dependent variable for detecting the effect predicted by their theory.

Step 2: Select a Set of Variables to Create a Measurement Scale

Our descriptive analysis reveals widespread variation in the number and types of investor judgment variables used in prior research. For example, Figure 2 shows that 41 percent of studies only elicit one dependent variable when measuring investors' judgments, which can be problematic since single variable measures are subject to more measurement error as a result of random noise. However, the other 59 percent of studies elicit between two and ten variables. This also can be problematic if the variables are selectively reported, inappropriately combined, and/or lead to inconsistent conclusions. After having identified the conceptual construct of interest, we recommend that researchers select multiple variables at an operational level that are intended to capture that construct. While no bright line standard exists, we suggest that, for each of the constructs identified in our analyses, three or four variables are likely sufficient.[22]

Selecting variables that capture the same underlying construct should increase scale reliability and statistical power. For example, in our descriptive analysis, we found that five papers combined dependent variables that loaded on different factors in our analyses (e.g., took the mean of a Factor 1 and Factor 2 dependent variable). Three of the five papers either do not report or fail to find a significant interaction at conventional levels. Further, it is important to

[22] The number of variables that should be elicited depends on the degree to which the construct that the researcher is interested in capturing is concrete and accessible versus abstract and inaccessible. Some constructs (e.g., age) are linked to relatively less ambiguous characteristics. As a result, well-designed single item scales are often sufficient to accurately measure these constructs. However, the constructs of most interest in experimental accounting research on investor judgments often require participants to make difficult evaluations based on complex information. As a result, "multiple items are likely to capture the variation in the construct with a degree of precision that a single item could not attain" (DeVellis 2016).

remember that we only survey published papers. It is impossible to know the number of papers that are not published because of low statistical power.

To help researchers decide on the specific dependent variables to select when studying one of the three constructs we identify, Table 5 presents the 34 variables from our analyses that loaded onto a single factor according to their factor loadings for each factor.[23] We offer the table as an input into researchers' decision process and note that the organization does not reflect a ranking of variable appropriateness given a specific construct. Best practice suggests selecting variables that capture different dimensions of a single conceptual construct. For example, Factor 1 relates to nonprofessional investors' expectations regarding future firm performance and value. Some of the different dimensions along which future firm performance might be evaluated include (1) the sign and magnitude of future earnings and/or cash flows, (2) the rate at which future earnings and/or cash flows will increase or decrease, and (3) how the stock price will be affected. While the dimensions above are meant to be illustrative (and not comprehensive), we urge researchers to carefully select dependent variables that capture different dimensions of the construct of interest rather than simply selecting the top three dependent variables under each construct from Table 5, or redundantly asking the same dependent variable in three different ways.

Step 3: Provide Evidence of Unidimensionality

Construct validation is an ongoing process (Cronbach 1971). Researchers using the dependent variables from our analysis, but in new settings and across different participants,

[23] Four variables cross-loaded on more than one factor in the EFA and were excluded from the CFA: DV11 (Rate the extent to which you agree with the following statement: "I feel very uncertain about investing in [Company] stock."); DV17 (How do you value [Company]'s stock?); DV18 (What do you believe the fundamental value for [Company] to be?); and DV19 (Indicate the value that you place on [Company]'s stock.).

would ideally perform and report the results of a CFA because it helps to continue to validate the methods being implemented and increases confidence that the dependent variables used capture a single construct. This can also aid future researchers to determine whether a construct they wish to target can be captured via a set of variables used in prior work. We recommend that researchers perform a CFA when possible and report the model chi-square and associated p-value, the CFI, the TLI, the RMSEA and its 90 percent upper and lower interval bounds, and the SRMR. Each of these statistics provide a measure of model fit and are defined in Appendix A. Prescribed cutoffs for these statistics are provided in footnote 17, with more detailed information available in Hu and Bentler (1999).

In cases where researchers choose three or fewer dependent variables to measure their construct of interest, the resulting one-factor CFA model will either be just-identified or under-identified (meaning there are insufficient degrees of freedom). In these cases, model fit statistics are not meaningful. We find in our descriptive analysis that 88 percent of papers elicit three or fewer dependent variables, which likely explains why Cronbach's alpha is the most cited reason for combining dependent variables in our sampled studies. Cronbach's alpha is a measure of scale *reliability* based on interitem *consistency* and can be useful to report. It is not, however, a sufficient indicator of scale *unidimensionality* (i.e., evidence that the selected dependent variables suitably represent one construct of interest).[24] This underscores the importance of our empirical analysis that uses a large set of dependent variables to identify different constructs of interest. If researchers limit their measurement scale to three dependent variables, we

[24] For example, the Cronbach's alpha for DV11, DV17, DV18, and DV19 is 0.87, even though these four variables capture aspects of all three factors. Similarly, the Cronbach's alpha for DV17, DV18, and DV19 is 0.93. While these three variables may appear on their face to capture a single construct, our analysis reveals that they cross-load onto Factors 1 and 2.

recommend that researchers rely on our results (and future validation evidence) when selecting dependent variables. Additionally, researchers should run an EFA on the three dependent variables and report the percentage of variance explained by the first factor along with the Cronbach's alpha.

Step 4: Report Descriptive Statistics for Each Dependent Variable

As part of our descriptive analysis of the experimental investor judgment literature, we found considerable variation in how dependent variables are reported. Of the 90 articles we survey, 20 articles footnote at least one dependent variable. Factor 2 variables are footnoted most often (13 times), followed by Factor 1 variables (9 times) and Factor 3 variables (4 times). In some cases, the footnote is provided to inform readers that results are robust to using individual variables in place of a combined measure. However, two articles explicitly state that results are less significant with certain variables and eight articles footnote a variable as yielding insignificant results when analyzed individually.[25, 26] To increase the transparency and consistency with which individual dependent variables are reported, we recommend that researchers tabulate descriptive statistics (e.g., mean and standard deviation) for all of the primary dependent variables they elicit as part of their study.

Step 5: Combine Responses to Dependent Variables to Test Hypotheses

Our final recommendation is that researchers combine responses to the dependent variables that represent the same construct by taking the arithmetic mean. We recommend using the arithmetic mean because it is simple and minimizes researcher degrees of freedom in the

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[25] The number of articles explicitly stating results are less significant is likely conservative. Many studies footnote individual dependent variables as providing "a similar pattern of results" or "similar inferences" without mentioning the statistical significance. We do not count these papers in the in-text tally but note it here as additional evidence regarding the variability with which dependent variable results are reported.

[26] The dependent variable that is footnoted most often as yielding less significant results is some variation of DV24: "How much of a $10,000 bonus would you invest in [Company]'s stock?"

choice of various combination approaches (e.g., regression scores, factor scores, principal components, etc.).[27] The combined metric should then serve as the primary dependent measure to test hypotheses. This approach should increase scale reliability and statistical power (DeVellis 2016).

Additional Considerations

We conclude this section by making a brief mention of two additional considerations researchers should keep in mind when eliciting responses from participants in experimental settings. First, researchers should be mindful of the number of response options they provide when eliciting responses to dependent variables. Two important factors to consider when determining the number of response options to provide are *variability* and *discrimination* (DeVellis 2016). The goal is to provide enough response options to capture meaningful variation in the judgments of participants, but not so many that participants cannot meaningfully discriminate between responses options. For example, 101-point Likert-style response scales are likely to capture greater variability in between-participant responses than 7-point Likert-style response scales. However, a response of '61' and '65' might not actually reflect differences in the construct being measured, but rather might reflect random error. While we suggest that 7-point Likert-style scales are likely to be sufficient in most cases, it is up to the researcher to determine the appropriate number of response options for their specific construct and research setting.[28]

[27] For example, as discussed by DiStefano, Zhu, and Mindrila (2009), "factor scores are sensitive to the factor extraction method and rotation method used…" (p. 5), and principal components should generally be used for data reduction purposes rather than being treated as latent variables.

[28] Eutsler and Lang (2015) investigate the impact of the number of scale points and their labels for all variables presented to participants within accounting research in general. They find that a fully labeled 7-point scale is likely to provide the greatest benefit to researchers.

Second, we urge researchers to be careful in their selection of variables used to provide process evidence. As discussed by Asay, Guggenmos, Kadous, Koonce, and Libby (2022), mediators and dependent variables should be both conceptually and operationally distinct. In our review, we identified 7 papers that report mediation analyses where the dependent variable and mediator load on the same construct in our analyses. In such cases, statistical mediation is all but assured, but the inferential value of the analyses is limited. To avoid this problem, we echo the recommendations of Asay et al. (2022) that researchers rely on established, well-validated measures of important theoretical constructs when providing process evidence. When no established measurement scale exists for a construct of interest, we recommend that researchers first seek to validate their measure before using it to provide process evidence. For example, Clor-Proell, Guggenmos, and Rennekamp (2020) validate a scale designed to capture investors' fear of missing out on investment information before using it to test their hypotheses.

V. DIRECTIONS FOR FUTURE RESEARCH

Having discriminated among the types of judgments made by nonprofessional investors and having provided recommendations based on best practices and our analyses, we now discuss areas where future research can continue to move the literature forward.

Investor Judgment and Decision-Making Framework

Under traditional valuation approaches, firm value is a function of discounted expected future performance (e.g., Lee 1999; Lundholm and Sloan 2007), and investment preferences and decisions are a function of these valuations. However, in combination with our findings, the literature suggests a more complex and nuanced investor judgment and decision-making process. A well-developed descriptive model of the investor judgment and decision-making process could help synthesize prior work and improve our understanding of how investors evaluate investments and make decisions. Our findings may be helpful in developing such a framework.

For example, our empirical analysis suggests that nonprofessional investors make judgments along three dimensions: (1) expectations regarding a firm's future performance and value, (2) wholistic perceptions of the firm (including nonpecuniary factors), and (3) evaluations of the risk associated with investing in a firm. Other factors may be viable that are not easily captured by the qualitative variables we analyze (one example may be a downstream decision component). A conceptual framework that articulates the interrelationship among the constructs we identify, the determinants and moderators of these constructs, and how these constructs lead to actual decisions by investors may be informative in identifying new areas of research.

Generalizability to Different Investor Samples

In our descriptive analysis, we attempt to be comprehensive by including studies that use participants that proxy for both nonprofessional (e.g., Amazon Mechanical Turk, undergraduate students, and graduate students) and professional investors (e.g., analysts). However, our empirical analysis is limited to the judgments of nonprofessional investors as proxied by Amazon Mechanical Turk workers.[29] Future research could examine the generalizability of the constructs we identify to alternative participant types. Distinguishing between nonprofessional and professional investors is likely to be particularly important given prior evidence that nonprofessional and professional participants engage in different processes when making judgments (Frederickson and Miller 2004).

[29] We report that of the 90 articles in our survey, 12 used Amazon Mechanical Turk workers, 10 used undergraduate students, 59 used graduate students (including MBA students), and 25 used professional participants for at least one experiment. Several studies report that their results are robust to analyzing results by participant type separately or including participant type as a covariate (e.g., Kelly, Low, Tan, and Tan 2012; Harris, Hobson, and Jackson 2016; Elliott, Grant, and Rennekamp 2017; Emett and Nelson 2017).

Measurement Scale Development

In this paper, we provide recommendations for the selecting, analyzing, and reporting of dependent variables without constraining researchers to using a specific subset of dependent variables. However, scale development is common in psychology and other social sciences. Using our results as a foundation, future research could develop a standard subset of dependent variables that capture the different dimensions of the constructs we identify.

To illustrate, take the high correlation between our Factor 1 and Factor 2 as a starting point. The wholistic perceptions of the firm captured through Factor 2 may also include some expectations regarding a firm's future performance and value. Separating the pecuniary and nonpecuniary components embedded in Factor 2 would aid researchers interested in studying either component on its own or in understanding the relationships between them. In fact, recent theoretical research in accounting and finance has begun to do exactly that by modeling investor behavior as a function of both *value* and *values* (e.g., Friedman and Heinle 2016; Pastor, Stambaugh, and Taylor 2021). Having standardized measurement scales for these related constructs would facilitate future experimental research in this area.

Qualitative Versus Quantitative Variables

To draw conclusions about investors' judgments, researchers have used variables that are both quantitative (e.g., "provide an estimate of [X]") and qualitative (e.g., "what is the appropriate level {low to high} of [X]") in nature. In untabulated descriptive analysis, we find that researchers appear to be relatively more likely to select quantitative variables for more sophisticated participants, as a higher proportion of variables are quantitative when participants are graduate students or professionals than when participants are undergraduate students or recruited from the general public ($\chi^2(1) = 13.84$; $p < 0.001$) (untabulated). Studies with less sophisticated participants are also less likely to have at least one quantitative variable ($\chi^2(1) = 7.48$; $p = 0.006$) (untabulated). For practical purposes, our empirical analysis focuses solely on qualitative variables. However, future research can examine the extent to which qualitative and quantitative variables are able to provide similar inferences regarding a conceptual construct of interest.

VI. CONCLUSION

The literature on investor judgments and decisions has grown substantially in recent years. Our goal is to provide an overview of the dependent variables used in this literature, link those measures to potential constructs of interest, and provide researchers with a useful resource for making (and later supporting) their dependent variable choices. To do so, we survey the investor judgments literature to aggregate the most commonly used dependent variables and rely on factor analyses to identify three underlying constructs related to the judgments of nonprofessional investors: (1) expectations regarding future firm performance and value, (2) wholistic perceptions of the firm, and (3) evaluations of the risk associated with investing in the firm.

We also provide recommendations to help researchers select, analyze, and report dependent variables, as well as provide a number of important directions for future research that could increase our understanding of individual investor judgments, increase our confidence in the appropriateness of the dependent variables used to study these judgments, and provide additional insight to guide future choices of dependent variables. While our empirical analysis provides an important first step in assessing the validity of the outcome variables within the investor judgment literature, we believe future research can do more to assess the relationship between the experimental variables summarized here and the variables commonly used in archival work. Providing concurrent and divergent validity between the variables used across these two methods would further assure the external validity of findings within the investor judgment experimental literature and help researchers generalize their results to real-world settings.

APPENDIX A. GLOSSARY OF TERMS

Below is a glossary of terms (listed alphabetically) that are used throughout the paper that may be unfamiliar to readers.

Common variance or communality	-	The fraction of the variance in each item (or dependent variable) that is accounted for by the latent constructs. The communality score is scaled such that a value of 1.0 indicates that the latent construct accounts for all the variation in the item. Uniqueness is the complement to communality.
Comparative Fit Index (CFI)	-	A measure of goodness of fit for a specified measurement model. The measurement model is compared to a baseline model in which there are no correlations between observed variables.
Confirmatory factor analysis	-	A special case of structural equation modeling that deals only with measurement models. It is a method of testing a priori hypotheses about the relationship between observed indicators (e.g., items) and theoretical latent constructs. CFA imposes explicit restrictions so that observed indicators relate with some (often just one) latent construct and not others.
Construct validity	-	The extent to which measurement scales map onto the latent constructs they are intended to represent.
Dimensionality	-	The number of latent constructs (or factors) needed to account for the correlation between items. In our case, three latent constructs are needed to account for the correlation between items intended to capture "investor judgments."
Eigenvalues	-	Indicates the proportion of the total variance among several correlated items that is accounted for by a more basic, underlying latent construct.
Exploratory factor analysis	-	A method for discovering a small set of underlying latent constructs from a large set of observable indicators (e.g., items).
Face (translational) validity	-	The extent to which items appear to be appropriate for capturing a latent construct based on their content, regardless of whether they actually are from an empirical standpoint (Bloomfield, Nelson, and Soltes 2016; DeVellis 2016).
Factor loadings	-	The correlation between an item and a latent construct (or factor).
Items	-	Individual questions that elicit responses from participants resulting in observable indictors of a latent construct. Each of the 38 dependent variables we study are an item.
Item complexity	-	Indicates the degree to which an item (or dependent variable) captures a single construct. The item complexity score will equal 1.0 if an item loads on exactly one factor, 2.0 if it evenly loads on two factors, and so on.

Latent construct	-	A theoretical variable of interest that is not directly observable but rather approximated through various observable indicators (e.g., items). Sometimes referred to as a latent factor.
Measurement model	-	A model that specifies the relationship between observed indicators (e.g., items) and theoretical latent constructs.
Measurement scales	-	A collection of items that capture a latent construct (or factor). There is no single correct measurement scale. However, a measurement scale should be validated to provide greater confidence that the intended construct is being appropriately measured.
Model chi-square	-	A measure of goodness of fit for a specified measurement model. Tests the null hypothesis that the model is a perfect fit for the data.
Root Mean Square Error of Approximation (RMSEA)	-	A measure of goodness of fit for a specified measurement model. Evaluates the measurement model as being an approximate fit for the data, rather than a perfect fit.
Standardized Root Mean Square Residual (SRMR)	-	A measure of goodness of fit for a specified measurement model. An index of the average standardized residuals between the observed and predicted covariance matrices.
Structural validity	-	The degree to which responses to the measurement instrument are an adequate reflection of the dimensionality of the construct being measured.
Tucker-Lewis Index (TLI)	-	A measure of goodness of fit for a specified measurement model. Like CFI, the measurement model is compared to a baseline model in which there are no correlations between observed variables. However, TLI penalizes overly complex model specifications.
Unique variance or uniqueness	-	The fraction of the variance in each item (or dependent variable) that is unaccounted for by the latent constructs. Communality is the complement to uniqueness.

APPENDIX B. EXPERIMENTAL ACCOUNTING ARTICLES ON INVESTOR JUDGMENT

Below is the list of 90 financial experimental research articles identified as investor judgment studies. The articles are listed chronologically first, then alphabetically. Citations in **bold** typeface are those that we identified as including full or partial experimental materials in the published versions of the papers. The materials from these articles were used to perform a confirmatory factor analysis. Articles with an asterisk had full or partial experimental materials, but were excluded from our confirmatory factor analysis because the materials were too long to present to participants on a single page.

Hirst, Koonce, and Simko (1995)

Hopkins (1996)

Maines, McDaniel, and Harris (1997)

Hirst and Hopkins (1998)

Kennedy, Mitchell, and Sefcik (1998)

Lipe (1998)

Hirst, Koonce, and Miller (1999)

Libby and Tan (1999)

Tuttle and Burton (1999)

Hopkins, Houston, and Peters (2000)

Maines and McDaniel (2000)*

Hodge (2001)

Sedor (2002)

Hirst, Jackson, and Koonce (2003)

Fredrickson and Miller (2004)

Hirst, Hopkins, and Whalen (2004)

Hodge, Kennedy, and Maines (2004)

Barton and Mercer (2005)

Koonce, Lipe, and McAnally (2005)

Koonce and Lipe (2010)

Koonce, McAnally, and Mercer (2005)

Krische (2005)

Mercer (2005)

Elliott (2006)

Frederickson, Hodge, and Pratt (2006)

Kadous, Krische, and Sedor (2006)

Miller (2006)

Hales (2007)

Han and Tan (2007)

Hirst, Koonce, Venkataraman (2007)

Hodder, Hopkins, and Wood (2008)

Koonce, Lipe, and McAnally (2008)

Pinello (2008)

Clor-Proell (2009)

Hewitt (2009)

Tan and Tan (2009)

Elliott, Krische, and Peecher (2010)

Han and Tan (2010)

Hodge, Hopkins, and Wood (2010)

Chen, Han, and Tan (2016)

Koonce, Williamson, and Winchel (2010)

Rose, Norman, and Rose (2010)

Elliott, Hobson, and Jackson (2011)

Hales, Kuang, and Venkataraman (2011)

Koonce, Nelson, and Shakespeare (2011)

Tan and Koonce (2011)

Elliott, Hodge, and Sedor (2012)

Kadous, Koonce, and Thayer (2012)

Kelly, Low, Tan, and Tan (2012)

Maletta and Zhang (2012)

Rennekamp (2012)

Chen and Tan (2013)

Bonner, Clor-Proell, and Koonce (2014)

Clor-Proell, Proell, and Warfield (2014)*

Elliott, Jackson, Peecher, and White (2014)*

Tan, Wang, and Zhou (2014)*

Anderson, Brown, Hodder, and Hopkins (2015)

Elliott, Rennekamp, and White (2015)

Fanning, Agoglia, and Piercey (2015)

Hewitt, Tarca, and Yohn (2015)

Koonce, Miller, and Winchel (2015)

Lachmann, Stefani, and Wohrmann (2015)

Nelson and Rupar (2015)

Tan, Wang, and Zhou (2015)

Winchel (2015)

Harris, Hobson, and Jackson (2016)

Asay, Elliott, and Rennekamp (2017)

Dong, Lui, and Wong-on-Wing (2017)

Elliott, Grant, and Rennekamp (2017)

Emett and Nelson (2017)*

Erickson, Hewitt, and Maines (2017)

Kelly and Tan (2017)

Koonce and Lipe (2017)

Rupar (2017)

Asay and Hales (2018)

Asay, Libby, and Rennekamp (2018)

Cade (2018)

Elliott, Grant, and Hodge (2018)

Grant, Hodge, Sinha (2018)

Kelton and Montague (2018)

Tan and Yu (2018)

Tang and Venkataraman (2018)

Cardinaels, Hollander, and White (2019)

Chen and Loftus (2019)

Emett (2019)

He, Tan, Yeo, and Zhang (2019)

Koonce, Leitter, and White (2019)

Tan, Wang, and Yoo (2019)

Elliott, Fanning, and Peecher (2020)

Guiral, Moon, Tan, and Yu (2020)

APPENDIX C. EXPERIMENTAL VIGNETTES FOR EXPLORATORY FACTOR ANALYSIS

Below is the information provided to experimental participants prior to eliciting responses to the various dependent variables. The first bullet point is our fundamental earnings performance manipulation, the second bullet point is our investment risk manipulation, and the third bullet point is our ESG manipulation. The 'High' level of the manipulation is as read. The 'Low' level of the manipulation is included in parentheses. The order of the bullet points and assignment to one of the eight vignettes is randomized.

Background Information:

For this study, you will assume the role of an investor making judgments about a company. You will read a brief summary about a company and then respond to a series of questions. Your responses should be based on the information provided and your own preferences and experiences.

Company Information:

Today, you will be making judgments about Kappa Corp. Kappa Corp is a publicly traded company. Please review the information below before proceeding to the next page:

- Kappa's managers forecast earnings growth to be 15% (1%) next year. The average of individual analyst forecasts also projects strong (weak) earnings growth for Kappa over the next several years.

- Growth in demand for Kappa's products is relatively volatile (stable), causing future earnings to be somewhat unpredictable (fairly predictable). As a result, individual analyst forecasts of earnings growth are considerably different (generally similar), with some significantly (slightly) lower and some significantly (slightly) higher than the average forecast of earnings growth.

- Kappa is widely viewed as having a positive (negative) impact on the environment and is known for treating its employees well (poorly). Further, recent news coverage has praised (criticized) Kappa for supporting (damaging) small communities and opposing (paying) bribes to foreign governments.

Before proceeding to the next page, please check the box below to indicate that you have carefully read the information about Kappa Corp.

☐ I have read the information about Kappa Corp. carefully

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FIGURE 1: FREQUENCY OF JUDGMENT TYPE MEASUREMENT

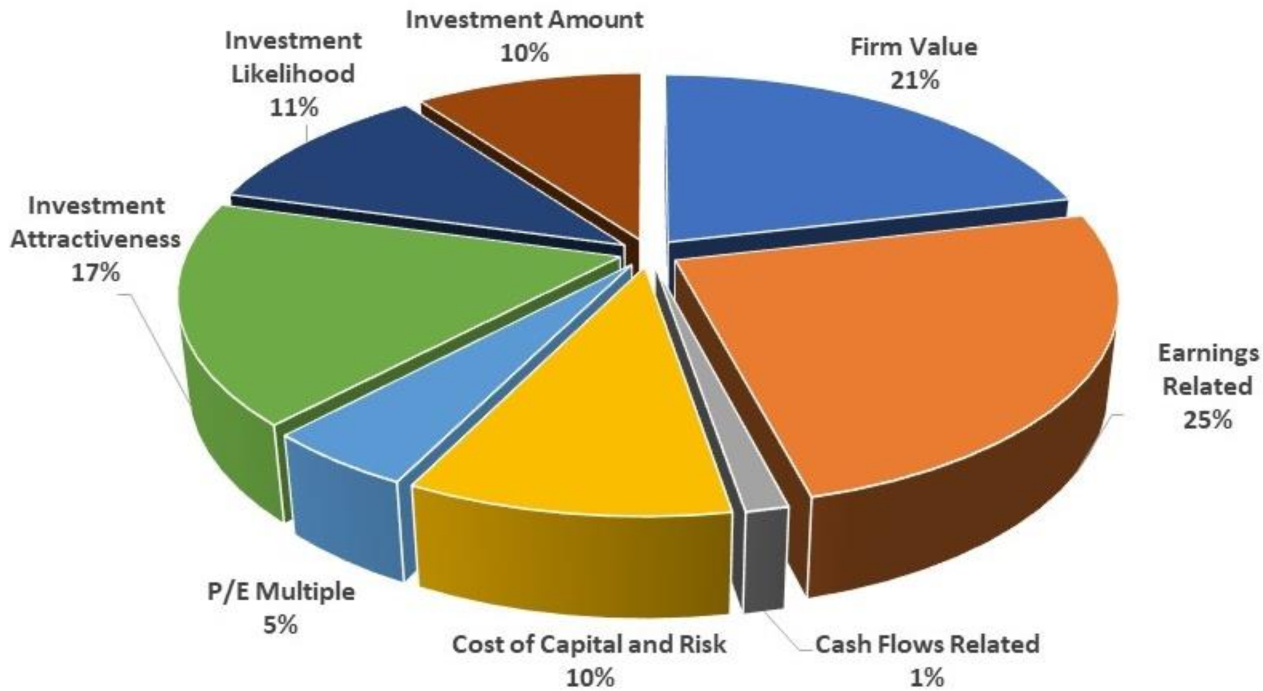

Figure 1 depicts the frequency with which different types of investor judgments were measured within our sample of research papers. For papers with multiple experiments, these counts include only the dependent variables for the first experiment if the *same* primary dependent variables are elicited in subsequent experiments. However, these counts include the dependent variables for subsequent experiments that elicit *different* primary dependent variables.

FIGURE 2: NUMBER OF PRIMARY DEPENDENT VARIABLES ELICITED

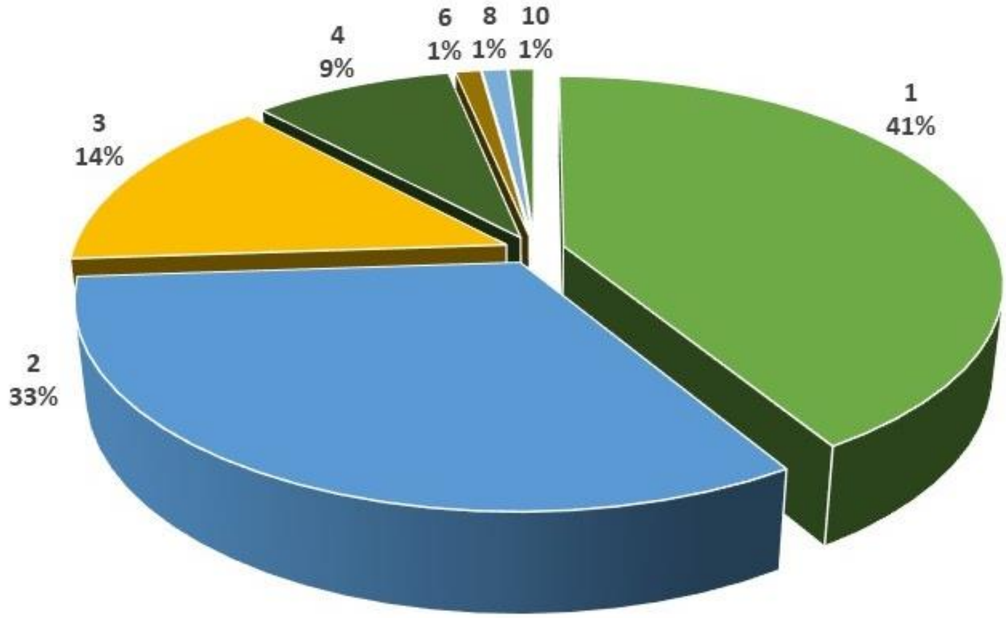

Figure 2 depicts the number of primary dependent variables elicited in each research paper in our sample. For papers with multiple experiments, these counts include only the dependent variables for the first experiment if the *same* primary dependent variables are elicited in subsequent experiments. However, these counts include the dependent variables for subsequent experiments that elicit *different* primary dependent variables.

TABLE 1. DEPENDENT VARIABLES USED IN EXPLORATORY FACTOR ANALYSIS

Dependent Variables Reference Sheet		**Response Scale**		
Ref.	**Variable**	**1**	**Mid**	**7**
DV1	[Company]'s future earnings performance will be _______.	Very Weak	About Average	Very Strong
DV2	Rate the extent to which you agree with the following statement: "[Company]'s earnings performance will be strong in the near future."	Strongly Disagree	Neither Disagree Nor Agree	Strongly Agree
DV3	[Company]'s earnings potential over the next year is _______.	Very Weak	About Average	Very Strong
DV4	How much do you think [Company]'s earnings will grow in the future?	Far Below Average	About Average	Far Above Average
DV5	You forecast [Company]'s earnings for the next year to be _______.	Very Weak	About Average	Very Strong
DV6	You forecast [Company]'s earnings growth rate for the next year to be _______.	Very Weak	About Average	Very Strong
DV7	You forecast [Company]'s cash flows for the next year to be _______.	Very Weak	About Average	Very Strong
DV8	How risky do you consider an investment in [Company] stock to be?	Very Low Risk	About Average Risk	Very High Risk
DV9	What is the risk of [Company] experiencing a moderate stock price decline within the next year?	Very Low Risk	About Average Risk	Very High Risk
DV10	Rate the risk associated with investing in [Company] stock.	Very Low Risk	About Average Risk	Very High Risk
DV11	Rate the extent to which you agree with the following statement: "I feel very uncertain about investing in [Company] stock."	Strongly Disagree	Neither Disagree Nor Agree	Strongly Agree
DV12	The investment risk of [Company] in the context of a diversified portfolio is _______.	Very Low Risk	About Average Risk	Very High Risk
DV13	Rate the extent to which you agree with the following statement: "Over the next 12 months, the stock price could increase significantly."	Strongly Disagree	Neither Disagree Nor Agree	Strongly Agree
DV14	Rate the extent to which you agree with the following statement: "Over the next 12 months, the stock price could decrease significantly."	Strongly Disagree	Neither Disagree Nor Agree	Strongly Agree
DV15	What do you believe is an appropriate common stock valuation for [Company]?	Very Low Value	About Average Value	Very High Value
DV16	What do you expect [Company]'s stock price per share to be next year?	Very Low	About Average	Very High

TABLE 1 (CONTINUED)

Ref.	Variable	1	Mid	7
DV17	How do you value [Company]'s stock?	Very Low Value	About Average Value	Very High Value
DV18	What do you believe the fundamental value for [Company] to be?	Very Low Value	About Average Value	Very High Value
DV19	Indicate the value that you place on [Company]'s stock.	Very Low Value	About Average Value	Very High Value
DV20	I believe that other stock market participants would value [Company]'s stock at a ________.	Very Low Value	About Average Value	Very High Value
DV21	What common stock valuation do you think potential investors would place on [Company] stock?	Very Low Value	About Average Value	Very High Value
DV22	How do you believe investors would perceive the value of [Company] stock?	Very Low Value	About Average Value	Very High Value
DV23	Provide a judgment about the appropriate valuation of [Company] stock.	Very Low Value	About Average Value	Very High Value
DV24	How much of a $10,000 bonus would you invest in [Company]'s stock?	None	Half	All
DV25	Provide a buy/sell/hold recommendation for [Company]'s stock.	Strong Sell	Hold	Strong Buy
DV26	What would be your preferred investment position in [Company]'s stock?	Large Short Position	No Position	Large Long Position
DV27	Assume you were placing a $10,000 bet on [Company]'s future stock price. Would you bet on [Company]'s stock price increasing or decreasing over the next year?	Definitely Decreasing	Not Sure	Definitely Increasing
DV28	Suppose you hold [Company] stock. How would you change your holdings of [Company] stock?	Significantly Decrease	Neither Decrease Nor Increase	Significantly Increase
DV29	Indicate how attractive [Company]'s stock is as an investment.	Very Unattractive	Neither Unattractive Nor Attractive	Very Attractive
DV30	What is the likelihood you would consider [Company]'s stock as a potential investment?	Very Low	About Average	Very High
DV31	How do you think that potential investors would evaluate [Company]'s stock in terms of its desirability as a potential investment?	Very Undesirable	About Average	Very Desirable
DV32	Rate the potential for [Company]'s stock price to appreciate over the next 12 months.	Very Low Potential	About Average Potential	Very High Potential
DV33	How willing are you to invest in [Company] stock?	Very Unwilling	Neither Unwilling Nor Willing	Very Willing

TABLE 1 (CONTINUED)

Ref.	Variable	1	Mid	7
DV34	Do you view [Company]'s stock as a more favorable or less favorable investment?	Significantly Less Favorable	Neither Less Nor More Favorable	Significantly More Favorable
DV35	Are your feelings towards [Company]'s stock as a potential investment generally more positive or more negative?	Significantly Negative	Neither Negative Nor Positive	Significantly Positive
DV36	Rate the extent to which you agree with the following statement: "I believe buying [Company]'s stock would be a good investment choice."	Strongly Disagree	Neither Disagree Nor Agree	Strongly Agree
DV37	My general perceptions of [Company]'s stock as a potential investment are _______.	Significantly Negative	Neutral	Significantly Positive
DV38	Do you view [Company]'s stock more favorable or less favorable in general?	Significantly Less Favorable	Neither Less Nor More Favorable	Significantly More Favorable

Table 1 lists the 38 dependent variables and associated response scales we extracted from our survey of the investor judgment literature. We first identified all dependent variables used in prior literature, and then combined variables that were nearly identical or redundant. In addition, we added several variables that elicit more general perceptions about the firm or future firm prospects. Further, we adapt all scales to be 7-point Likert-style response scales and use qualitative labels for all variables (e.g., Very low to Very high; Very weak to Very strong; etc.).

TABLE 2. EXPLORATORY FACTOR ANALYSIS PARTICIPANT DEMOGRAPHICS

Gender:	
Male	52%
Female	47%
Other/Prefer not to say	1%
Age Percentiles:	
1%:	20 years
25%:	31
Median:	38
Mean:	41
75%	49
99%	74
Education:	
Did not graduate high school	1%
High school or equivalent	8%
Vocational/technical school	5%
Some college	20%
Bachelor's degree	49%
Master's degree	14%
Doctoral degree	1%
Professional degree (MD, JD, etc.)	1%
Other (e.g., associate degree)	1%
Number of participants investing or planning to invest in various asset types:	
None	9%
Individual company stocks	57%
Mutual funds	48%
Index funds	25%
401(k) plans	65%
Government bonds	21%
Corporate bonds	10%
Total value of investment in stocks, bonds, mutual funds, IRA's, 401(k) plans, and the like:	
$0 - $4,999	32%
$5,000 - $9,999	10%
$10,000 - $19,999	9%
$20,000 - $29,999	8%
$30,000 - $49,999	9%
$50,000 or more	32%

Table 2 provides demographic information for the Amazon Mechanical Turk participants recruited for the exploratory factor analysis. All percentages are based on the total number of completed responses, which is 999.

TABLE 3. CORRELATION MATRIX FROM EXPLORATORY FACTOR ANALYIS

	DV1	**DV2**	**DV3**	**DV4**	**DV5**	**DV6**	**DV7**	**DV8**	**DV9**	**DV10**	**DV11**	**DV12**	**DV13**	**DV14**	**DV15**	**DV16**	**DV17**	**DV18**	**DV19**
DV1	1.00																		
DV2	0.85	1.00																	
DV3	0.86	0.85	1.00																
DV4	0.84	0.82	0.83	1.00															
DV5	0.88	0.85	0.88	0.83	1.00														
DV6	0.87	0.85	0.88	0.84	0.88	1.00													
DV7	0.85	0.82	0.86	0.81	0.87	0.86	1.00												
DV8	-0.40	-0.38	-0.35	-0.42	-0.37	-0.35	-0.41	1.00											
DV9	-0.44	-0.45	-0.41	-0.46	-0.43	-0.42	-0.43	0.74	1.00										
DV10	-0.38	-0.37	-0.36	-0.40	-0.36	-0.36	-0.40	0.83	0.72	1.00									
DV11	-0.44	-0.44	-0.40	-0.44	-0.42	-0.41	-0.43	0.63	0.55	0.61	1.00								
DV12	-0.29	-0.29	-0.27	-0.33	-0.28	-0.29	-0.31	0.71	0.62	0.72	0.52	1.00							
DV13	0.71	0.75	0.75	0.70	0.72	0.72	0.69	-0.19	-0.27	-0.17	-0.28	-0.14	1.00						
DV14	-0.46	-0.46	-0.42	-0.46	-0.46	-0.45	-0.46	0.61	0.67	0.61	0.50	0.50	-0.23	1.00					
DV15	0.79	0.77	0.77	0.76	0.80	0.77	0.77	-0.40	-0.42	-0.39	-0.43	-0.33	0.64	-0.44	1.00				
DV16	0.83	0.80	0.81	0.81	0.82	0.82	0.83	-0.40	-0.45	-0.40	-0.42	-0.32	0.71	-0.48	0.77	1.00			
DV17	0.77	0.74	0.72	0.76	0.75	0.73	0.73	-0.42	-0.42	-0.41	-0.49	-0.34	0.61	-0.43	0.78	0.73	1.00		
DV18	0.73	0.71	0.69	0.72	0.73	0.69	0.72	-0.44	-0.41	-0.43	-0.50	-0.34	0.59	-0.43	0.76	0.71	0.78	1.00	
DV19	0.77	0.75	0.73	0.74	0.76	0.72	0.73	-0.40	-0.40	-0.39	-0.48	-0.31	0.61	-0.42	0.79	0.73	0.87	0.78	1.00
DV20	0.79	0.79	0.81	0.77	0.81	0.79	0.79	-0.38	-0.41	-0.37	-0.40	-0.29	0.68	-0.40	0.79	0.78	0.72	0.72	0.74
DV21	0.81	0.80	0.82	0.78	0.82	0.81	0.80	-0.39	-0.42	-0.37	-0.42	-0.30	0.68	-0.43	0.83	0.80	0.76	0.73	0.77
DV22	0.82	0.81	0.83	0.80	0.83	0.81	0.81	-0.40	-0.43	-0.40	-0.43	-0.31	0.69	-0.43	0.80	0.80	0.76	0.74	0.76
DV23	0.80	0.79	0.80	0.78	0.80	0.78	0.78	-0.40	-0.43	-0.38	-0.45	-0.31	0.67	-0.44	0.83	0.78	0.79	0.77	0.79
DV24	0.61	0.62	0.58	0.62	0.60	0.57	0.57	-0.31	-0.31	-0.31	-0.44	-0.20	0.51	-0.35	0.61	0.56	0.69	0.64	0.69
DV25	0.69	0.70	0.66	0.70	0.68	0.66	0.68	-0.44	-0.44	-0.44	-0.48	-0.36	0.58	-0.44	0.71	0.67	0.74	0.71	0.75
DV26	0.48	0.47	0.44	0.46	0.45	0.42	0.46	-0.38	-0.31	-0.37	-0.43	-0.30	0.38	-0.34	0.51	0.46	0.54	0.54	0.54
DV27	0.74	0.71	0.71	0.73	0.72	0.71	0.74	-0.48	-0.55	-0.48	-0.47	-0.39	0.61	-0.57	0.66	0.75	0.66	0.66	0.65
DV28	0.63	0.64	0.60	0.63	0.61	0.60	0.60	-0.36	-0.36	-0.37	-0.43	-0.27	0.54	-0.39	0.65	0.60	0.73	0.68	0.73
DV29	0.75	0.76	0.72	0.73	0.73	0.72	0.73	-0.46	-0.45	-0.45	-0.53	-0.34	0.61	-0.46	0.74	0.70	0.82	0.78	0.83
DV30	0.68	0.69	0.66	0.68	0.68	0.65	0.64	-0.40	-0.40	-0.41	-0.54	-0.31	0.57	-0.42	0.69	0.64	0.80	0.73	0.79
DV31	0.78	0.80	0.79	0.77	0.80	0.78	0.78	-0.43	-0.45	-0.43	-0.46	-0.37	0.69	-0.44	0.78	0.77	0.74	0.74	0.76
DV32	0.81	0.80	0.83	0.79	0.80	0.81	0.79	-0.35	-0.42	-0.34	-0.40	-0.28	0.73	-0.44	0.75	0.80	0.71	0.68	0.73
DV33	0.66	0.68	0.62	0.68	0.64	0.62	0.63	-0.43	-0.42	-0.42	-0.55	-0.34	0.56	-0.44	0.67	0.63	0.78	0.72	0.76
DV34	0.71	0.70	0.67	0.71	0.69	0.66	0.68	-0.45	-0.44	-0.46	-0.55	-0.36	0.58	-0.47	0.71	0.66	0.81	0.75	0.79
DV35	0.67	0.68	0.63	0.68	0.65	0.62	0.64	-0.46	-0.44	-0.45	-0.55	-0.38	0.55	-0.45	0.67	0.62	0.79	0.75	0.77
DV36	0.74	0.75	0.70	0.73	0.71	0.69	0.71	-0.48	-0.49	-0.46	-0.55	-0.37	0.61	-0.49	0.73	0.69	0.81	0.77	0.80
DV37	0.71	0.72	0.67	0.70	0.68	0.66	0.68	-0.46	-0.46	-0.45	-0.56	-0.35	0.57	-0.47	0.71	0.67	0.81	0.78	0.80
DV38	0.67	0.68	0.64	0.68	0.66	0.63	0.65	-0.45	-0.42	-0.45	-0.55	-0.35	0.55	-0.45	0.69	0.63	0.80	0.76	0.78

TABLE 3 (CONTINUED)

	DV20	**DV21**	**DV22**	**DV23**	**DV24**	**DV25**	**DV26**	**DV27**	**DV28**	**DV29**	**DV30**	**DV31**	**DV32**	**DV33**	**DV34**	**DV35**	**DV36**	**DV37**	**DV38**
DV20	1.00																		
DV21	0.86	1.00																	
DV22	0.86	0.88	1.00																
DV23	0.81	0.84	0.84	1.00															
DV24	0.56	0.60	0.60	0.62	1.00														
DV25	0.65	0.67	0.67	0.70	0.67	1.00													
DV26	0.44	0.48	0.48	0.49	0.51	0.57	1.00												
DV27	0.68	0.68	0.69	0.68	0.54	0.66	0.49	1.00											
DV28	0.58	0.62	0.62	0.64	0.72	0.76	0.53	0.61	1.00										
DV29	0.70	0.73	0.73	0.77	0.73	0.79	0.58	0.67	0.77	1.00									
DV30	0.63	0.67	0.67	0.70	0.78	0.77	0.59	0.61	0.80	0.86	1.00								
DV31	0.82	0.82	0.82	0.79	0.61	0.70	0.49	0.70	0.64	0.77	0.72	1.00							
DV32	0.77	0.79	0.79	0.79	0.57	0.66	0.46	0.72	0.58	0.70	0.65	0.77	1.00						
DV33	0.61	0.64	0.64	0.68	0.79	0.78	0.60	0.62	0.80	0.84	0.90	0.69	0.64	1.00					
DV34	0.65	0.68	0.68	0.73	0.74	0.77	0.58	0.65	0.78	0.88	0.87	0.73	0.66	0.88	1.00				
DV35	0.61	0.64	0.64	0.68	0.75	0.78	0.59	0.63	0.78	0.86	0.87	0.70	0.62	0.88	0.89	1.00			
DV36	0.70	0.71	0.72	0.75	0.73	0.80	0.59	0.69	0.77	0.87	0.86	0.76	0.70	0.86	0.87	0.85	1.00		
DV37	0.66	0.69	0.68	0.73	0.75	0.78	0.59	0.65	0.77	0.88	0.88	0.74	0.66	0.88	0.89	0.91	0.87	1.00	
DV38	0.63	0.66	0.65	0.70	0.77	0.77	0.61	0.63	0.79	0.85	0.88	0.71	0.62	0.89	0.90	0.90	0.85	0.90	1.00

Table 3 presents the correlations among the dependent variables based on responses received from 999 Amazon Mechanical Turk workers who participated in the exploratory factor analysis.

TABLE 4. EXPLORATORY FACTOR ANALYIS THREE-FACTOR MODEL

PANEL A. Factor loadings, variance explained, and factor correlations

Variable	Factor1	Factor2	Factor3	Communality	Uniqueness	Item Complexity
DV6	0.99			0.85	0.15	1.0
DV3	0.98			0.86	0.14	1.0
DV5	0.95			0.87	0.13	1.0
DV7	0.91			0.83	0.17	1.0
DV20	0.89			0.78	0.22	1.0
DV1	0.89			0.85	0.15	1.0
DV16	0.89			0.80	0.20	1.0
DV22	0.88			0.82	0.18	1.0
DV32	0.87			0.78	0.22	1.0
DV21	0.87			0.82	0.18	1.0
DV2	0.83			0.83	0.17	1.0
DV13	0.82			0.64	0.36	1.1
DV4	0.80			0.80	0.20	1.0
DV23	0.74			0.79	0.21	1.1
DV15	0.71			0.76	0.24	1.1
DV31	0.68			0.78	0.22	1.2
DV27	0.61			0.66	0.34	1.3
DV33		0.99		0.88	0.12	1.0
DV38		0.98		0.90	0.10	1.0
DV35		0.97		0.89	0.11	1.0
DV30		0.95		0.87	0.13	1.0
DV37		0.91		0.90	0.10	1.0
DV34		0.90		0.88	0.12	1.0
DV24		0.82		0.67	0.33	1.0
DV28		0.82		0.71	0.29	1.0
DV36		0.75		0.86	0.14	1.1
DV29		0.74		0.86	0.14	1.2
DV25		0.61		0.72	0.28	1.3
DV26		0.57		0.41	0.59	1.1
DV17	0.38	0.56		0.79	0.21	1.8
DV19	0.42	0.53		0.79	0.21	1.9
DV18	0.40	0.46		0.72	0.28	2.0
DV8			0.91	0.83	0.17	1.0
DV10			0.90	0.81	0.19	1.0
DV12			0.80	0.61	0.39	1.0
DV9			0.77	0.68	0.32	1.1
DV14			0.59	0.52	0.48	1.2
DV11		-0.36	0.52	0.53	0.47	1.8

	Factor1	**Factor2**	**Factor3**
SS loadings	14.24	10.99	4.11
Proportion Var	37%	29%	11%
Cumulative Var	37%	66%	77%

Factor correlations

	Factor1	Factor2	Factor3
Factor1	1.00		
Factor2	0.78	1.00	
Factor3	-0.45	-0.49	1.00

Mean item complexity = 1.1

TABLE 4 (CONTINUED)

PANEL B. Measurement Model	
Factor 1 =~	DV6 + DV3 + DV5 + DV7 + DV20 + DV1 + DV16 + DV22 + DV32 + DV21 + DV2 + DV13 + DV4 + DV23 + DV15 + DV31 + DV27
Factor 2 =~	DV33 + DV38 + DV35 + DV30 + DV37 + DV34 + DV24 + DV28 + DV36 + DV29 + DV25 + DV26
Factor 3 =~	DV8 + DV10 + DV12 + DV9 + DV14
Factor 1 ~	Future Earnings Manipulation + ESG Manipulation + Risk Manipulation
Factor 2 ~	Future Earnings Manipulation + ESG Manipulation + Risk Manipulation
Factor 3 ~	Future Earnings Manipulation + ESG Manipulation + Risk Manipulation
Factor 1 ~~	Factor 2
Factor 1 ~~	Factor 3
Factor 2 ~~	Factor 3

PANEL C. SEM Coefficient Estimates

	Factor 1	Factor 2	Factor 3
Future Earnings Manipulation	0.62***	0.38***	-0.18***
ESG Manipulation	0.26***	0.57***	-0.32***
Risk Manipulation	-0.24***	-0.22***	0.53***

Table 4, Panel A presents the exploratory factor analysis output obtained by using the 'fa' function from the 'lavaan' package in the R statistical software. We use maximum likelihood estimation to estimate the factor loadings and use a direct oblimin oblique rotation to increase the interpretability of the factor solution. Only factor loadings above 0.30 are displayed. DVs are listed within each factor by their factor loading. Sum of square loadings are presented for each factor, as well as the total variance among the DVs that is explained by each factor. Finally, the correlations between each factor are presented, as well as the mean item complexity score for the entire dataset. See Appendix A for definitions of item complexity, uniqueness, and communality.
Table 4, Panel B presents the measurement model we specify in the R statistical software to assess the influence of each experimental manipulation on each factor. First, each DV is assigned to each factor based on the factor loadings from Panel A. DV11, DV17, DV18, and DV19 are excluded because they cross-load onto multiple factors. Next, Factors 1, 2, and 3 are regressed on an indicator variable for each experimental manipulation. Finally, Factors, 1, 2, and 3 are allowed to correlate with one another.
Table 4, Panel C presents the SEM coefficient estimates from the regressions of Factors 1, 2, and 3 on each experimental manipulation.
*** indicates that the coefficient is statistically significant at the 1% level.

TABLE 5. INTERPRETATION OF EXPLORATORY FACTOR ANALYSIS SOLUTION

Panel A - Factor 1: Expectations regarding future firm performance and value	
Ref.	**Variable**
DV6	You **forecast [Company]'s earnings growth** rate for the next year to be _______.
DV3	[Company]**'s earnings potential** over the next year is _______.
DV5	You **forecast [Company]'s earnings** for the next year to be _______.
DV7	You **forecast [Company]'s cash flows** for the next year to be _______.
DV20	I believe that other stock market participants would **value [Company]'s stock** at a _______.
DV1	[Company]'s **future earnings performance** will be _______.
DV16	What do you **expect [Company]'s stock price** per share to be next year?
DV22	How do you believe investors would **perceive the value of [Company]** stock?
DV32	Rate the **potential for [Company]'s stock price to appreciate** over the next 12 months.
DV21	What **common stock valuation** do you think potential investors would place on [Company] stock?
DV2	Rate the extent to which you agree with the following statement: "[Company]'s **earnings performance will be** strong in the near future."
DV13	Rate the extent to which you agree with the following statement: "Over the next 12 months, the **stock price could increase significantly**."
DV4	How much do you think [Company]'s **earnings will grow** in the future?
DV23	Provide a judgment about the **appropriate valuation of [Company]** stock.
DV15	What do you believe is an **appropriate common stock valuation for [Company]**?
DV31	How do you think that potential investors would evaluate **[Company]'s stock in terms of its desirability** as a potential investment?
DV27	Assume you were placing a $10,000 bet on **[Company]'s future stock price**. Would you bet on [Company]'s stock price increasing or decreasing over the next year?

TABLE 5 (CONTINUED)

Panel B - Factor 2: Wholistic perceptions of the firm	
Ref.	**Variable**
DV33	How **willing are you to invest** in [Company] stock?
DV38	Do you view [Company]'s stock more favorable or less **favorable in general**?
DV35	Are **your feelings towards [Company]'s stock** as a potential investment generally more positive or more negative?
DV30	What is the likelihood you would **consider [Company]'s stock as a potential investment**?
DV37	My **general perceptions of [Company]'s stock** as a potential investment are _______.
DV34	Do you view [Company]'s stock as a **more favorable or less favorable investment**?
DV24	How much of a $10,000 bonus **would you invest in [Company]'s stock**?
DV28	Suppose you hold [Company] stock. How **would you change your holdings** of [Company] stock?
DV36	Rate the extent to which you agree with the following statement: "**I believe buying [Company]'s stock would be a good investment choice**."
DV29	Indicate **how attractive [Company]'s stock is** as an investment.
DV25	**Provide a buy/sell/hold recommendation** for [Company]'s stock.
DV26	What would be **your preferred investment position** in [Company]'s stock?

TABLE 5 (CONTINUED)

Panel C - Factor 3: Evaluations of the risk associated with investing in the firm	
Ref.	**Variable**
DV8	**How risky do you consider an investment** in [Company] stock to be?
DV10	**Rate the risk associated with investing** in [Company] stock.
DV12	**The investment risk of [Company]** in the context of a diversified portfolio is **_______**.
DV9	What is **the risk of [Company]** experiencing a moderate stock price decline within the next year?
DV14	Rate the extent to which you agree with the following statement: "Over the next 12 months, **the stock price could decrease significantly**."

Table 5, Panel A presents the dependent variables that load onto Factor 1: Expectations regarding future firm performance and value (Expected Future Performance).
Table 5, Panel B presents the dependent variables that load onto Factor 2: Investment preferences towards and general perceptions of the firm (Individual Investor Preferences).
Table 5, Panel C presents the dependent variables that load onto Factor 3: Evaluations of the risk associated with investing in the firm (Investment Risk).
Note: In each panel, dependent variables are listed in descending order of factor loadings obtained from the exploratory factor analysis. DV11, DV17, DV18, and DV19 all cross-load onto multiple factors, and are not listed.

TABLE 6. CONFIRMATORY FACTOR ANALYSIS PARTICIPANT DEMOGRAPHICS

Gender:	
Male	52%
Female	47%
Other/Prefer not to say	1%
Age Percentiles:	
1%:	20 years
25%:	30
50%:	37
75%	48
99%	73
Education:	
Did not graduate high school	< 1%
High school or equivalent	10%
Vocational/technical school	4%
Some college	21%
Bachelor’s degree	45%
Master’s degree	14%
Doctoral degree	2%
Professional degree (MD, JD, etc.)	3%
Other (e.g., associate degree)	< 1%
Number of participants investing or planning to invest in various asset types:	
None	9%
Individual company stocks	61%
Mutual funds	49%
Index funds	29%
401(k) plans	64%
Government bonds	17%
Corporate bonds	8%
Total value of investment in stocks, bonds, mutual funds, IRA’s, 401(k) plans, and the like:	
$0 - $4,999	29%
$5,000 - $9,999	9%
$10,000 - $19,999	13%
$20,000 - $29,999	8%
$30,000 - $49,999	9%
$50,000 or more	31%

Table 6 provides demographic information for the Amazon Mechanical Turk participants recruited for the confirmatory factor analysis. All percentages are based on the total number of completed responses, which is 998.

TABLE 7. CONFIRMATORY FACTOR ANALYSIS OUTPUT AND MODEL COMPARISON

PANEL A. Three-factor measurement model and output

Factor 1 =~	DV6 + DV3 + DV5 + DV7 + DV20 + DV1 + DV16 + DV22 + DV32 + DV21 + DV2 + DV13 + DV4 + DV23 + DV15 + DV31 + DV27
Factor 2 =~	DV33 + DV38 + DV35 + DV30 + DV37 + DV34 + DV24 + DV28 + DV36 + DV29 + DV25 + DV26
Factor 3 =~	DV8 + DV10 + DV12 + DV9 + DV14
Factor 1 ~~	Factor 2
Factor 1 ~~	Factor 3
Factor 2 ~~	Factor 3

Variable	**Factor1**	**Factor2**	**Factor3**
DV6	0.92		
DV3	0.92		
DV5	0.92		
DV7	0.90		
DV20	0.86		
DV1	0.91		
DV16	0.89		
DV22	0.87		
DV32	0.88		
DV21	0.87		
DV2	0.90		
DV13	0.78		
DV4	0.87		
DV23	0.86		
DV15	0.85		
DV31	0.89		
DV27	0.84		
DV33		0.91	
DV38		0.93	
DV35		0.94	
DV30		0.90	
DV37		0.93	
DV34		0.93	
DV24		0.74	
DV28		0.80	
DV36		0.92	
DV29		0.93	
DV25		0.83	
DV26		0.62	
DV8			0.88
DV10			0.87
DV12			0.73
DV9			0.78
DV14			0.69

Factor Covariance

Factor 1 ~~ Factor 2	0.96
Factor 1 ~~ Factor 3	-0.66
Factor 1 ~~ Factor 3	-0.71

TABLE 7 (CONTINUED)

PANEL B. Fit statistics

χ^2 = 2,359.67 (df = 524; p-value = < 0.001)

CFI = 0.958

TLI = 0.955

RMSEA = 0.059, RMSEA lower = 0.057, RMSEA upper = 0.062 (H_0: RMSEA $\leq$ 0.05, p < 0.001)

SRMR = 0.033

Table 7, Panel A presents the three-factor measurement model we specify in the R statistical software to conduct the confirmatory factor analysis to assess model fit. First, each DV is assigned to each factor based on the factor loadings from exploratory factor analysis. DV11, DV17, DV18, and DV19 are excluded because they cross-load onto multiple factors. Next, Factors 1, 2, and 3 are allowed to correlate with one another. The next section shows the standardized coefficient estimates for each DV. Finally, the last section shows the factor covariances.

Table 7, Panel B presents the model fit statistics for the three-factor measurement model specified in Panel A. See Appendix A for definitions of model chi-square, the Comparative Fit Index (CFI), the Tucker-Lewis Index (TLI), Root Mean Square Error of Approximation (RMSEA), and Standardized Root Mean Square Residual (SRMR).