“The Display of Information and Household Investment Behavior”

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יום שני, 29 דצמבר 2014, בשעה 14:00
סמינרון 1103, בניין אורי-舍ר, קמפוס המרכז הבינתחומי, הרצליה

Abstract

I show that household investment decisions depend on the manner in which information is displayed by exploiting a regulatory change which prohibited the display of past returns for any period shorter than twelve months. In this setting, the information displayed was altered but the attainable information set remained constant. Using a differences-in-differences design, I find that the shock to information display caused a reduction in the sensitivity of fund flows to short-term returns, a decline in overall trade volume, and increased asset allocation toward riskier funds. These results are consistent with models of limited attention and myopic loss aversion. To further explore the concept of salience, I propose a distinction between relative and absolute salience and find evidence consistent with the latter. Overall, my findings indicate that small changes in the manner in which past performance information is displayed can have large effects on household investment behavior and potentially influence households’ accumulated wealth at retirement.