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Essays on Household Finance and Individual Investor Behaviour

A thesis presented in partial fulfilment of the requirements for the degree of

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Annie Claire Zhang

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Abstract

This dissertation studies factors that influence individual investor behaviour using two unique proprietary datasets which cover the investment fund choices, fund switches and asset allocation decisions for over 600,000 individual investors in New Zealand. The first study looks at return chasing. I investigate whether investors use past returns to choose funds during a period with particularly volatile returns, before and after the 2008 Global Financial Crisis. The findings suggest that investors chase returns and investors are affected by past quarterly, half-yearly and annual returns. Funds with positive past returns see more investors choose their fund, while funds with negative returns see investors leave their fund. The second study explores the role of financial advice on asset allocation. I find that people who receive financial advice invest significantly more in equity. Women, older and wealthier investors are more likely to receive advice than others. However, the differences in returns of people who receive advice and those that do not, are marginal. I investigate the impact of financial advice differently to previous studies which use brokers, dealers, bank-employees and computer generated algorithms. I show that using personal, face-to-face financial advice result in different findings. The third study tests the relative importance of personal characteristics, peer effects and financial advice on asset allocation. Surprisingly, household peer effects rather than personal characteristics dominate investment decisions. In fact, all peer effects combined (household effects, work place effects and neighbourhood effects) are twice as important as personal characteristics.
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