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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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Table of Contents

Abstract	i
Acknowledgements	ii
Table of Contents	iv
Table of Tables	vii
Table of Figures	ix
Appendix	x
Chapter 1 Introduction	1
1.1 Introduction	1
1.2 Main findings and contribution to the literature	3
1.2.1 Past returns and fund selection	3
1.2.2 Financial advice and asset allocation of individual investors	5
1.2.3 The relative importance of factors that influence the asset allocation decisions of individual investors.....	7
Chapter 2 Past returns and fund selection	10
2.1 Introduction	10
2.2 KiwiSaver institutional features, investor inertia, and the 2008 global financial crisis	15
2.3 Data and methodology	18
2.4 Results	26
2.4.1 Univariate results	26
2.4.2 Fund choice and demographic characteristics	34
2.4.3 Past returns and demographic characteristics as robustness checks.....	35
2.4.4 ‘Smart’ fund switching	42

2.5 Conclusion.....	44
Chapter 3 Financial advice and asset allocation of individual investors	46
3.1 Introduction.....	46
3.2 Data	51
3.3 Methodology and results	55
3.3.1 Who receives financial advice	55
3.3.2 The impact of financial advice on asset allocation	58
3.3.3 The impact of financial advice on short term returns	70
3.4 Conclusion.....	75
Chapter 4 The relative importance of factors that influence the asset allocation decisions of individual investors	77
4.1 Introduction.....	77
4.2 Data	85
4.3 Methodology	93
4.4 Results	94
4.4.1 Personal and household effects	97
4.4.2 Workplace, personal, and household effects.....	103
4.4.3 Neighbours, financial advice, peers, and personal characteristics	108
4.4.4 Causal household and co-worker peer effects.....	113
4.5 Robustness checks	118
4.5.1 Holdout Test	118
4.5.2 Seeming Unrelated Regression and the Wald Test.....	120
4.5.3 Incremental <i>F</i> -test.....	126
4.5.4 Peer Fund Switching.....	127

4.5.5 Other Robustness Checks	134
4.6 Conclusion.....	138
References	153

Table of Tables

Table 2.1 Investment fund asset allocation	19
Table 2.2 Summary statistics for investor demographics and fund switches	20
Table 2.3 A summary of monthly investment fund returns (October 2007- December 2010)	22
Table 2.4 Past returns: Fund enrolments.....	27
Table 2.5 Past returns: Fund switches.....	31
Table 2.6 Stock market index returns and fund switches.....	33
Table 2.7 Demographics and asset allocation	35
Table 2.8 Past returns, investor demographics and fund choice	37
Table 2.9 Investor demographics: Sensitivity to returns.....	39
Table 2.10 Fund switching payoff	43
Table 3.1 Descriptive statistics	53
Table 3.2 Who receives advice	56
Table 3.3 Financial advice asset allocation means.....	61
Table 3.4 Multivariate framework: Financial advice and demographic characteristics .	63
Table 3.5 Robustness checks: Seemingly unrelated regressions model and Heckman model.....	69
Table 3.6 Differences in KiwiSaver portfolio performance 2008-2012	71
Table 3.7 Differences in hypothetical portfolio performance 2000-2012.....	74
Table 4.1 Household size and company size	88
Table 4.2 Summary statistics	92
Table 4.3 Asset allocation: R-squares of models.....	95
Table 4.4 Asset allocation: Personal effects and household peer effects.....	98
Table 4.5 Asset allocation: Co-worker peer effects, personal effects and household peers effects	106

Table 4.6 Asset allocation: All peer effects, financial advice and personal characteristics	111
Table 4.7 Instrumental Variable estimation model	116
Table 4.8 Holdout test	119
Table 4.9 Seemingly unrelated regressions and Wald test: Neighbours versus all other factors	121
Table 4.10 Seemingly unrelated regressions and Wald test: Personal characteristics versus household and workplace peer effects	124
Table 4.11 Incremental F -test	126
Table 4.12 Peer Fund Switching	130
Table 4.13 Heckman correction	136
Table 4.14 Standardised peer effects	137

Table of Figures

Figure 2.1 Sample KiwiSaver fund enrolment July 2007- December 2010	21
Figure 2.2 New Zealand KiwiSaver fund enrolment July 2007- December 2010	21
Figure 3.1 Probability of receiving financial advice and funds under management.....	58

Appendix

Appendix 4.1 Single person and multi-person asset allocation	140
Appendix 4.2 Differences in peer group fund choices.....	141
Appendix 4.3 Switching behaviour interaction terms.....	142
Appendix 4.4 Switching behaviour interaction terms.....	144
Appendix 4.5 Asset allocation cluster household	146
Appendix 4.6 Asset allocation White standard errors.....	148
Appendix 4.7 Age correlation matrix.....	150
Appendix 4.8 Financial advice correlation matrix.....	151
Appendix 4.9 Workplace peer effects	152