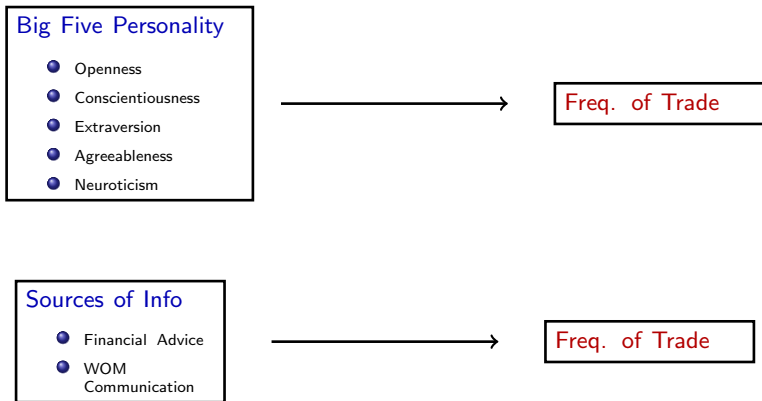


Does Financial Advice and Word-of-Mouth Communication Influence the Association Between Investor Personality and Trading Behavior? Evidence from Chinese Stock Market

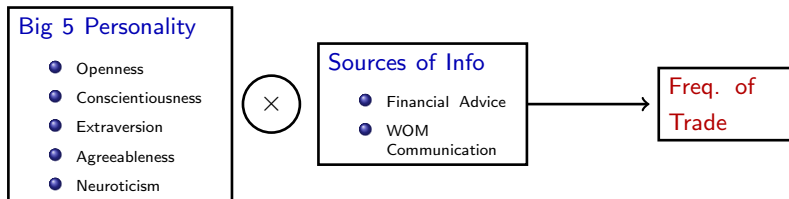
Tauni M.Z., Fang H.X. & Iqbal A. (2017)

Discussion by K. Ngangoué.

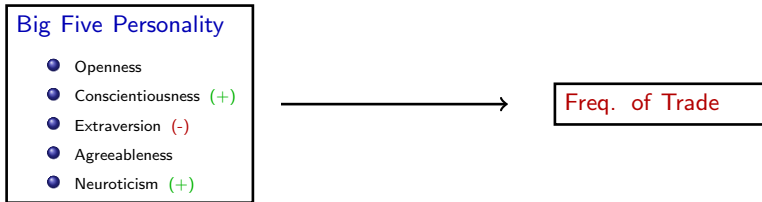
Objective: Investigate the interaction between personality and information sources on frequency of trade.



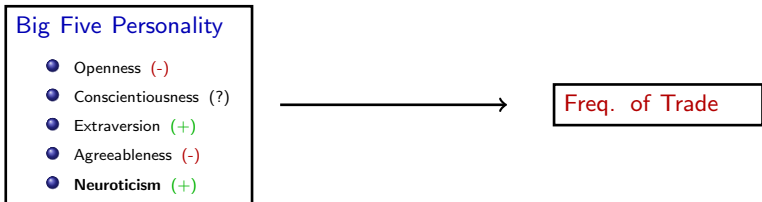
Conjecture: Traders with different personality traits interpret information from different sources differently, and therefore, might trade differently often.



From previous studies we know...



In Chinese stock market (Tauni et al., 2017):



- What are the characteristics of Chinese traders' personality traits?
- Selection bias? Are some personality types more likely to respond to an online survey?
- No control for measurement error.

From existing literature...

Sources of Info

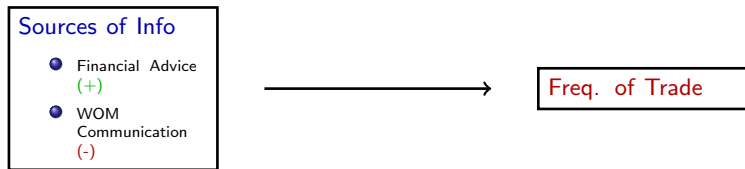
- Financial Advice
(-)/ (+)
- WOM
Communication
(+)



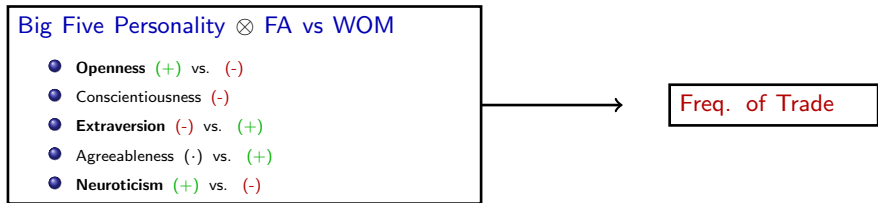
Freq. of Trade

(Market participation/
diversification)

In Chinese stock market (Tauni et al., 2017):



In Chinese stock market (Tauni et al., 2017):



Finding: Different personalities use different sources of information differently, yielding very different coefficient estimates.

- The underlying mechanisms are not always clear though (e.g. wom-communication and neuroticism).

What is to take out?:

- What about important alternative sources (e.g. news)?
- Advisors and companies should take into account investors' personality before giving recommendations. But shouldn't be the optimal strategy be independent from client personality?
- Target specific personalities when advertising: requires causal relation between personality and information acquisition.
- More from the regulatory perspective: Investors should be informed of potential biases/non-rational behavior related to their personality before engaging in trading. Suggests alternative dependent variable, such as diversification, overreaction.

Financial Literacy and Portfolio Dynamics

Bianchi, M. (2016)

Research question: Do traders of different financial literacy exhibit different trading dynamics?

Findings:

- Positive correlation between literacy and portfolio returns.
 - Partly because more literate households take more risk when risky assets provide higher returns.
 - More literate traders rebalance their portfolio towards higher returns.
 - Less literate households display more portfolio inertia.

- Meticulous analysis
- but no evidence of causality: Endogeneity issues? When is financial literacy measured? Any chance of follow-up survey?