THE EFFECTS OF EXPERIENCE ON INVESTOR BEHAVIOR: EVIDENCE FROM INDIA’S IPO LOTTERIES

DISCUSSANT:

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- Has all the right ingredients to score high on the coolness factor
  - Quasi-field experiment
  - Large, proprietary, data set (actually, two)
  - Individuals-level data

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- Summary of the results
  - *"Investors experiencing exogenous gains in IPO stocks are more likely to apply for future IPOs, increase trading in their portfolios, exhibit stronger disposition effect, and tilt their portfolios towards sector of the treatment IPO."*
  - 1.7M observations to establish these results…

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- I like experiments!
  - but many of my colleagues are less enthusiastic…
- Here, it looks like a field experiment
  - real people, real money, real decisions
- However, can we really think of it as a field experiment?
  - well, yes and not

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  - "Does listening to Buddhist scriptures affect behavior?"
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- **Effect cannot be generalized to the population of investors**

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- **We can use variations in trading profits as an instrument**

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- The results for the IPO lottery winner crucially depend on the return sign
- Winning an IPO that goes up is a cash infusion
- Can the results can be explained by receiving cash?
  - more trading
  - conditional on trading, we know that investors exhibit disposition effect and familiarity bias

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- Humans learn about their ability from the consequences of their actions
  - “Do Day Traders Rationally Learn About Their Ability?“, Barber et. al. (2010)
  - “Why Do (Some) Households Trade So Much?”, Linnainmaa (2010)
  - “Learning to be Overconfident”, Gervais and Odean (2001)
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- **Is learning from experience an interesting null?**

COMMENT V: MISC

- The data includes account type classification (e.g., domestic and foreign institutions) – use it as a falsification test
- Show that the sample of IPO bidders is representative of the overall sample
- Study accounts who randomly received IPO allocations for the 2^{nd} time
- Motivate some of the dependent variables better (e.g., why look at diversification?)
- Use the relative size of the IPO allocation as an instrument
- Discuss the effect of the major difference in sample size between positive and negative IPO return samples: 1.6M vs. 0.1M

CONCLUSION

- Great data, applied to a timely and interesting question: how does experience affect investment decisions
- Think deeper about the advantages and limitations of the IPO lottery instrument
- Use the large literature in finance and psychology to generate more nuanced predictions and results