

Genes may play a role in your investment choices

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(PhysOrg.com) -- Whether you're a safe, conservative investor or a fast-trading stock-swapper, genes may actually play a role in some of your decisions. Individuals frequently exhibit investment biases, such as not diversifying enough, being reluctant to sell stocks that have lost money or simply trading too much. Now, new research from Stephan Siegel, visiting professor at the W. P. Carey School of Business at Arizona State University, shows some investors may be born with those biases.

“We find a significant portion, between 26 and 45 percent, of the variation across investors is due to genetic differences,” says Siegel. “Our evidence supports the view that [investment](#) biases reflect behaviors that were once shaped by evolutionary forces, but might no longer be optimal.”

Siegel and his co-author analyzed data on fraternal and identical twins, and found that identical twins (those with the same [genes](#)) are more likely to exhibit the same investment biases than fraternal twins. Swedish financial institutions kept detailed information on citizens' investments in stocks, bonds and mutual funds for tax purposes for many years, and the records from 1999 to 2007 were used for this study on more than 30,000 twins.

In particular, the researchers studied the following biases:

1. Under-diversification – the tendency not to spread risk broadly across investments;

2. Home bias – the preference to invest in domestic, rather than foreign, securities;
3. Loss aversion – the reluctance to sell securities that have lost value;
4. Performance chasing – the tendency to buy securities that have performed well in the past with no guarantee of similar performance in the future;
5. Turnover – investors’ trading intensity;
6. Skewness preference – investors’ appetite for lottery-type securities.

The study also looks at whether a person’s experiences and environment affect genetic predisposition. One finding, for example, suggests that those with work experience in finance are less affected by genetic biases.

“Genetic effects were more pronounced for direct stock holdings than for portfolios with both stocks and mutual funds,” adds Siegel. “Also, the genetic effects were more noticeable for relatively larger investors.”

Siegel will present his findings at the invitation-only ASU Sonoran Winter Finance Conference at the W. P. Carey School of Business later this week. The event is drawing finance faculty from top universities across the country, including Stanford University, Duke University, Columbia University and the Wharton School at the University of Pennsylvania.

The new research by Siegel and his co-author, Henrik Cronqvist, associate professor from Claremont McKenna College, is available through the Social Science Research Network at papers.ssrn.com/abstract=2009094 . More analysis will also be available after this week’s presentation at KnowWPCarey.com, the W. P. Carey School of Business research website.

Provided by Arizona State University

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