Even with 24/7 access, investors tend to avoid portfolios when expecting bad news

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Even with 24/7 access to financial data, investors avoid looking at their portfolios when markets are down, according to new research by Carnegie Mellon University economists George Loewenstein and Duane Seppi; Columbia Business School's Nachum Sicherman and Stephen Utkus at Vanguard.

Loewenstein and Seppi first introduced the "ostrich effect" in 2009 to describe how investors "put their heads in the sand" to dodge facing their financial portfolios when they're expecting bad news. The new data documents that ostrich behavior is widely prevalent, even with today's around-the-clock access to financial information, and is a stable personality characteristic in individual investors. Forthcoming in the *Review of Financial Studies*, the study is the first large-scale investigation into when investors log in to check their portfolios and how logins affect trading activity.

"This is the adult version of shaking the piggy bank," said Loewenstein, the Herbert A. Simon University Professor of Economics and Psychology in CMU's Dietrich College of Humanities and Social Sciences. "It shows that investing is much more than cold calculations about how to maximize resources when you retire. Short-term fluctuations in portfolio values are an important source of immediate pleasure and pain for investors. Not logging in when the news is likely to be bad is one strategy that investors use to minimize the pain while taking beneficial risks."

The new research examines how and when investors pay attention to their financial portfolios using a large data set of over 852 million observations on day-to-day logins and trades for 1.1 million investors over two years. The researchers found strong evidence that investors exhibit an ostrich pattern in attending to their portfolios. For example, account logins fell by 9.5 percent after a decline in the previous day's stock market.

"With investment decisions gravitating to the digital world, financial attention, whether to good or bad news, becomes a fundamental force that advisers, plan sponsors and financial services providers must grapple with," Utkus noted.

Investors also paid less attention when the VIX index indicated that future stock market volatility was expected to be high. Men were more likely to exhibit ostrich behavior, as well as older investors, and, perhaps most importantly, investors with greater portfolio balances—investors with more at stake—were more likely to look selectively when markets were up.

"Attention matters, not only because of its effect on trading, but also because aggregate investor attention behavior can affect how different securities are priced," said Seppi, the BNY Mellon Professor of Finance in CMU's Tepper School of Business. "For example, our results suggest that investors not only care about the streams of expected future cash flows from stocks and bonds, but also streams of future information."

The study's main findings also included:

- On average, attention was higher after positive stock market returns than after negative returns. However, curiosity and increased account monitoring for potential trading opportunities led investors to log in and pay attention despite predictable bad

news after extreme negative market days.
- Investors whose portfolios consisted only of bonds displayed a reverse ostrich effect; they were much more likely to log in when the stock market was down. This behavior also reflects avoidance of bad news since, for bond-holding investors, a rising stock market represented foregone returns.
- Investors displayed a strong ostrich effect when it came to multiple logins on weekends. Given that markets were closed, after the first login there was nothing new to be learned. Additional weekend logins do, however, enable investors to "savor" good news.
- There was a volatility ostrich effect in that logins decreased with the VIX. Also, attention increased with greater news media reporting on the stock market.
- Patterns in aggregate trading were decomposed in the paper into separate patterns in attention and conditional trading. Investors who displayed ostrich behavior were less likely to trade following market downturns. Thus, the ostrich effect may protect investors from overreacting to adverse financial news.
- High average levels of attention and ostrich behavior are both more common in men, older investors and wealthier investors. Ostrich behavior also appeared to be a stable personality trait of individual investors over time.
- The analysis helps explain a long-standing empirical puzzle about why men tend to trade more than women. Not only do men pay more attention to their investment portfolios than do women, but men are also more likely to trade after they do pay attention. Thus, trading by men reflects elevated financial attention as well as confidence (or possibly overconfidence).
- Ostrich behavior and equity risk-bearing were positively related. That is, ostriches tended to hold more in equity relative to bonds, and likewise, those with greater equity holdings were more likely behave as ostriches.

Pointing to the study's widespread implications, Sicherman said, "Similar patterns of attention may also arise in other contexts, such as healthcare, where sticking your head in the sand and ignoring negative signals may actually be dangerous."

Provided by Carnegie Mellon University

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