CENTER FOR
ECONOMIC
BEHAVIOR &
INEQUALITY

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Discussion of

Resolving the Excessive Trading Puzzle:

An Integrated Approach Based on Surveys and Transactions

by

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Disclaimer

I know nothing about the substance of this paper

What is the 'excessive trading puzzle'?

- Traders trade too much for their own good

- Multitude of explanations
  - Portfolio rebalancing
  - Low liquidity
  - overconfidence
  - realization utility
  - gambling preference
  - sensation seeking
  - social interaction
  - low financial literacy
  - …

Overall

- Starting point of investigation is super sensible

it is unlikely that all explanations are equally important,
and it is also possible that certain explanations may be subsumed by others

- Combine subjective and objective data to be able to run horse race
  - Custom-made survey in China in September 2018 (n=10.000)
  - Merge with account-level transaction data at the Shenzhen Stock Exchange (match rate: ~ 50%)
  - Do subjectively stated motives explain actual trading volume

- This is a lot of work!

- This is a very promising approach

Comment 1: Testible implications and overlap

- Have testible implications of each of the hypotheses been developed sufficiently?
- Are theories mature enough that they have precise implications in a mathematical model of investor behavior?
- You seem to conclude that explanations are overlapping
  - Not clear exactly how they are overlapping
  - Is statement based on ex post considerations (results) rather than ex ante considerations (theory)?
- Is the horse race actually a horse race?

Comment 2:
Do questions really reflect underlying factor/mechanism?

Example:

- **Gambling with probability weighting**: (overweigh small probs of high reward)

When I trade stocks, I aim to select those stocks whose price would rise sharply in a short period of time so that I can make a lot of money quickly.

- Expected utility with probability weighting $U(p) = \sum_{x \in X} \pi \left(p(x)u(x)\right)$ where $\pi\ (.)$ is weighting function. The question is intended to capture $\pi\ (.)$

- Does question mimic what an experimentalist would do?

- Have questions been validated against experimental elicitation?

Comment 3: Are all hypotheses about turnover?

- $Turnover\%_i = \beta_0 + \beta_1 D_i^{Literacy} + \cdots + \beta_k D_i^{Extrapolation} + \cdots$

- Is turnover always the relevant outcome?
  - Is extrapolation more about what shares are traded than about how frequently they are traded?
  - Social influence – is influence of network positive or negative?

    (data suggests negative; what does that mean?)

    (networks endogenous, cf. Manski?)

Comment 4: Validation

- Validation: Does survey and registry deliver same answer?
  - Ex. Is 2018 income the same according to survey and registry?
  - Ex. Does registry and survey agree that respondent traded X shares in company Z on September 23, 2018?

- Example from your validation
  - Registry: Daily return on individual stock cannot exceed 10%. Count up-limit hits by trader
  - Survey: “When I trade stocks, I aim to select those stocks whose price would rises sharply in a short period time so that I can make a lot of money quickly”
  - Exercise: does survey predict registry
  - What to expect?

- Is this perhaps rather a test of the motive’s existence?

Comment 5: What is too much?

- You test whether motives correlate with trading volume
- Is that the same as testing whether there is *too* much trading activity?
- What is the optimal level of trading activity?

- You are innovators – that fantastic!
- Hard to translate (abstract) theory into accesible questions
- Always possible to come up with questions to empirics
- Bottom line is: I think this is a great project (program?)!
- It was very interesting to read!