Discussion of

Getting Better: Learning to Invest in an Emerging Stock Market

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Origins of Investor Beliefs

- How to people come up with beliefs about
  - equity premium?
  - style return premia?
  - their trading skill?
  - importance of diversification?
  - performance of active mutual funds?
  - inflation & real interest rates?
- Standard assumption in AP: Rational expectations. Leads to puzzles
  - why are asset returns predictable?
  - why do people trade?
  - why do people invest in active mutual funds?
  - why are individual investors underdiversified?
- Alternative: Learning

Anti-Learning

Anti-Learning

Investor Learning: Many Interesting Empirical Questions

- Learning: From what?
  - Educational offerings and introspection?
  - Public information including all historical data?
  - Life-time experiences of public information?
  - Social network?
  - Own-portfolio experiences?
- Learning: How?
  - Updating: probably some Bayesians, some boundedly rational, some immune to learning?
  - Priors: probably heterogeneous priors

Learning of Investors in India

- This paper: Fantastic data set from India
  - Comprehensive picture of stock investments (mutual fund holdings are low) by tax ID
  - Limited demographic information but has account age
  - In some ways comparable to Scandinavian data sets, but here, e.g., higher frequency observations than Calvet et al. (2007, 2009)
- Do they learn? Yes.
  - Older accounts outperform younger accounts
    - partly due to better style tilts
    - partly due to better stock picks unrelated to style tilts
  - Older accounts are better diversified, have lower turnover, smaller disposition effect
- How do they learn? Learning from experience.
  - Poor returns cumulative, or in single month induce lower turnover and disposition bias, and greater diversification

Comment 1: How Do They Learn to Earn Higher Returns?

- Lower turnover and better diversification of older accounts do not explain why their returns are higher *before* transaction costs and risk-adjustment. Still an open question.
- How does better style tilt arise? From experience?
  - relate style tilt to experience of market-wide style returns?
    - Not much power with short time series
  - relate style tilt to experience of personal style returns?
    - e.g., investor A bought value stocks that outperformed the market, investor B bought value stocks that underperformed. Does this heterogeneity induce differences in propensity to own value stocks?
  - foundation for Barberis and Shleifer (2003) style investing?
- How do better stock picking skills arise?
  - Perhaps to some extent unobserved style tilts? Expand style categories

Comment 2: Heterogeneity in Learning?

- Young-old differences in updating: Young may be more sensitive to recent experiences
- Are there types of investors that are more adept at learning to invest?
  - Are value investor "types" behaving different from growth investor "types"?
  - Diversification "types" vs. gambling "types"?
  - ...
- Possibly non-monotonic
  - Well diversified, value investors, ... have nothing to learn
  - Not-so-well diversified ones, moderate growth investors, ... have something to learn
  - Some extreme types immune to learning?

Comment 3: Does Past Investment Success Induce Bad Behavior?

- Finding: Good own-portfolio performance in the past relative to the market/from trading/from disposition-behavior reinforces low diversification/high turnover/disposition-behavior
- Is this evidence of reinforcement of "bad" behavior?
- Test: Do own-portfolio performance measures predict future own-portfolio returns and Sharpe Ratio negatively?

Comment 4: Puzzling Factor-Adjusted Returns

Old-accounts minus young-accounts zero-investment portfolio in Table 6:

- why is hml loading negative even though older accounts seem to have a value tilt?
- odd consequence: factor-adjusted returns are even bigger than raw excess returns, even though some of raw excess return arises from apparent value tilt of older accounts
- due to value-weighting of stocks in construction of factors?

Summary

- Great Data. New insights into investor behavior.
- Findings underscore that investor behavior evolves dynamically as function of experiences
- Potential to do a lot more with the data set
- Potential to connect to asset pricing questions (e.g. style investing).