Comments on Anagol, Balasubramaniam, Ramadorai

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5th Emerging Markets Finance conference, Bombay

18 December 2014

The question

- In an ideal neoclassical world, each investor is a rational calculation machine.
- Investor behaviour does not get modified by recent experience.
- But in the real world, does recent experience modify investor behaviour?

Methods

- Many household databases can be used to compare investors vs. non-investors.
- But investors have low risk aversion + high optimism.
- What would be nice is to have a true experiment where some households self-select themselves to play in a lottery
- This paper finds one such experiment in the Indian IPO market.
- We see treatment/control.
- A credible, modern causal econometrics paper.

Concern about the design

- The map you present shows us that a particular kind of person participates in IPOs.
- Do they participate repeatedly?
- If so, does this contaminate the controls?
  Are the controls being shocked around continuously by investment experiences with other IPOs?
- Are the event windows contaminated?
  If so, the treatment effects are biased downwards.
- Should be easy to look for households who bid for only one IPO and nothing else?

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Understanding the effects

- In Month 1, they buy 0.8 more securities and sell 1.1 more securities
- Net impact on number of securities traded is negative?
- That appears odd.
- Are these empirical magnitudes (0.8 / 1.1) large? Need more context.
- Question: What would we find if we merge the first two experience effects (on buy and sell) into gross turnover and net investment?

Conjecture: Informed vs. uninformed traders in the young stock

1. IPO takes place.
2. In the early months investors are rebalancing away from that very high weightage.
3. High fraction of non-speculative orders.
4. Should give high liquidity.

Conjecture: Effects in the large

1. A really big IPO takes place.
2. It is successful.
3. A wave of non-speculative orders comes into the overall equity market
4. This improves liquidity in the overall market.
5. Are there opposite effects if the IPO does badly?
6. This will not matter for small IPOs where the empirical magnitudes will just not matter.

Conjecture: Maybe this does not matter so much

- There is a fixed pool of IPO investors (Gujarat, Rajasthan, and their denizens in Bombay).
- The same people apply for all IPOs.
- Person i gets through for one IPO, person j gets through for another.
- There are short term effects for each of them owing to experience effects.
- In steady state all these persons end up in a similar place.

What are humans like?

- We are all learning machines.
- The mango tasted good yesterday, so for a few days I have more mangoes.
- We keep slightly shifting priorities based on recent experience.
- What is the weight of the prior? How far from Bayes rule are we?
- All models are wrong. Some models are useful. Perhaps in some situations, the rational agent is a useful simplification, while in some situations, we need to confront agents that learn.

Part of an important new literature

- Finance is: households, firms, intermediaries, markets.
- In the last few years, a new literature has developed on household finance
- A fresh focus on this field owing to consumer protection scandals, and focus on consumer protection in regulatory mandates world wide.
- An exciting time in this field.

Thank you.