2nd European Retail Investment Conference

April 24-26, 2013
Stuttgart Stock Exchange
Börsenstraße. 4 | Stuttgart, Germany
Welcome to the 2nd European Retail Investment Conference

On behalf of everyone involved in organizing the 2nd European Retail Investor Conference (ERIC): welcome to Stuttgart! The conference is designed to highlight the importance and breadth of topics surrounding retail investors and investments. As evidence of the importance of the topic, we received a much higher than expected number of submissions to the main conference and doctoral consortium.

We received 54 submissions from 20 countries for the main conference and 22 for the doctoral consortium. This is an substantial increase to ERIC 2011 with about 40 submissions for the main conference and 12 submissions for the doctoral consortium. In 2013, the final program has 13 slots and many high quality papers did not make it onto the program.

The program topics range from retail investor products and mutual funds, financial advice and decisions, to market microstructure and behavioral finance. On top of an excellent program, we are thrilled to be able to present a prominent member of the academic community, Prof. Alok Kumar (University of Miami) as our Keynote Speaker, who will be talking about “Social Biases and Investor Behavior”.

Finally, we – the Conference Chairs of the 2nd European Retail Investor Conference – would like to thank the conference partners and sponsors, first and foremost: Boerse Stuttgart. Their financial and logistical support shows their dedication to both scientific progress and the understanding of the needs of retail investors. Our thanks also go to “Sparkassen Finanzgruppe Wissenschaftsförderung”, an initiative of the German Savings Bank Finance Group, for sponsoring the Doctoral Consortium Best Paper Awards. We would also like to thank the members of the Program Committee and all reviewers for their evaluation of the submissions and feedback provided to the authors.

We wish all participants a pleasant stay in Stuttgart and exciting presentations, fruitful discussions, and new research ideas.

Hans-Peter Burghof
University of Hohenheim
Ryan Riordan
University of Ontario Institute of Technology
Christof Weinhardt
Karlsruhe Institute of Technology
Welcome to Boerse Stuttgart

Boerse Stuttgart is pleased to be the host of the 2nd European Retail Investment Conference (ERIC). Hence, I would like to welcome all conference delegates at Boerse Stuttgart, the leading retail investor exchange in Germany. At our exchange, retail investors trade securities in all asset classes: equities, bonds, funds, and securitised derivatives. In 2012, there were more than 1 million tradable assets listed at Boerse Stuttgart with a turnover of over 89 billion Euro.

The successful development of the securitized derivatives market segment Euwax (European Warrant Exchange) certainly strengthened Boerse Stuttgart’s position as the leading retail investor exchange in Germany. By ongoing improvements and additions of further market segments, Boerse Stuttgart successfully kept up with retail investors’ demands. For over 17 years, innovations at Boerse Stuttgart have been focused on the needs of retail investors. Recently, a subsidiary of Boerse Stuttgart launched the exchange traded commodity ‘Euwax Gold’ which provides retail investors a transparent, cost-effective, and safe instrument to invest in physical gold. Also the corporate bond trading segment for small and medium sized companies ‘BondM’ is a major innovation. Besides bond trading, retail investors have the opportunity to participate directly in the bond subscription, which was originally reserved for institutional investors.

It is important to recognize that retail investors do not have the same needs and prerequisites as institutional investors. For example, retail investors neither have the opportunity to do professional research themselves nor do they have the same technical facilities as professionals. As a result, investment products, market models, pricing structures, etc. have to be tailored to support retail investor’s trading. We believe that identifying and understanding those needs is of major importance for assuring the leading position in the German market.

We are glad to have the opportunity to support excellent academic work on a wide range of retail investor topics. ERIC offers researchers, professionals, and regulators new insights into retail investor behavior, products, and services. Boerse Stuttgart believes that it is particularly important to support young academics with new and unconventional ideas. Therefore, I am happy to welcome young researchers participating in the ERIC Doctoral Consortium in Stuttgart.

I would like to thank the conference chairs Prof. Hans-Peter Burghof, Prof. Ryan Riordan, and Prof. Christof Weinhardt for their work and contribution to a highly interesting and relevant conference. I am looking forward to fruitful discussions and a mutual exchange of ideas, and I wish all conference delegates a rewarding experience at ERIC.

Christoph Lammersdorf
Chairman of the Management Board
Boerse Stuttgart
Welcome to “Stuttgart Financial”

Welcome to Stuttgart, a very dynamic region and one of the biggest economic centres in Europe. Baden-Wuerttemberg is world-famous for its engineering industry and is the home of global corporations such as Daimler, Bosch and Porsche.

Stuttgart and its region have a long tradition in industrial innovation. Innovation however requires financial support. Therefore, Stuttgart traditionally fosters a tight link between the real economy and the financial sector. This is one of the reasons that the city and the region are very interesting for financial corporations. Stuttgart has a vibrant financial sector. It is one of the most important financial centres in Germany, which includes a large number of Germany’s premier financial services companies. More than 300 institutes are located all over the state with a particular focus on Stuttgart. As an important economic region, Stuttgart and its surroundings offer a high level of income and economic status to its inhabitants. Therefore, the Stuttgart-based financial sector is also focused on retail investment and private banking. Retail investors certainly benefit from the European market leader in the securitised derivatives segment, Boerse Stuttgart, Germany’s second largest stock exchange. Germany’s largest financial trade fair “INVEST” also stresses the importance of retail investors for the financial centre.

Yet, every knowledge-based industry needs an experienced research base. The financial expertise in the region is supported by Stuttgart’s academic and research institutions in the fields of finance and economics. There are 14 internationally acknowledged academies and universities with chairs in finance and economics. These institutes foster scientific progress.

The importance and the necessity of academic research in the financial sector became more than evident during the financial crisis. The financial field is in need of rethinking and restructuring, which is heavily supported via academic research. In light of this, the 2nd European Retail Investment Conference and Doctoral Consortium will be a significant and interesting addition to scientific research and international understanding in the financial sector. We appreciate that the conference will take place in Stuttgart and wish all the participants a pleasant stay in our city.

Thomas Munz
Member of the Executive Board
Vereinigung Baden-Württembergische Wertpapierbörse e.V.
Conference Sponsors

Boerse Stuttgart
DIE PRIVATANLEGERBÖRSE

Finanzgruppe
Wissenschaftsförderung

Partners

STUTTGART FINANCIAL
Für den Finanzplatz in Baden-Württemberg

DEUTSCHE BUNDESBANK
EUROSYSTEM
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# Program at a Glance

## Wednesday, April 24th, 2013

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<th>Time</th>
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<tbody>
<tr>
<td>10:30 - 18:00</td>
<td>Doctoral consortium</td>
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<tr>
<td>19:00</td>
<td>Wine reception at Boerse Stuttgart</td>
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## Thursday, April 25th, 2013

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
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<tbody>
<tr>
<td>8:00</td>
<td>Welcome coffee and registration at Boerse Stuttgart</td>
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<tr>
<td>9:00 - 9:25</td>
<td>Welcome addresses</td>
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<tr>
<td>9:25 - 10:35</td>
<td>Session 1: Behavioral Finance I</td>
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<tr>
<td>10:35 - 11:00</td>
<td>Coffee break</td>
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<tr>
<td>11:00 - 11:45</td>
<td>Round Table</td>
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<td>11:45 - 12:50</td>
<td>Lunch break</td>
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<tr>
<td>12:50 - 14:00</td>
<td>Session 2: Behavioral Finance II</td>
</tr>
<tr>
<td>14:00 - 14:10</td>
<td>Break</td>
</tr>
<tr>
<td>14:10 - 15:20</td>
<td>Session 3: Informed Trading</td>
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<tr>
<td>15:20 - 15:50</td>
<td>Coffee break</td>
</tr>
<tr>
<td>15:50 - 17:00</td>
<td>Session 4: Investment Decisions</td>
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<tr>
<td>17:00 - 17:30</td>
<td>Coffee break</td>
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<tr>
<td>17:30 - 18:40</td>
<td>Session 5: Investor Characteristics</td>
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<tr>
<td>19:30</td>
<td>Reception at Kunstmuseum</td>
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<td>20:00</td>
<td>Gala Dinner at Restaurant Cube</td>
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## Friday, April 26th, 2013

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
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<tbody>
<tr>
<td>8:00</td>
<td>Welcome coffee and registration at Boerse Stuttgart</td>
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<tr>
<td>8:30 - 09:40</td>
<td>Session 6: Mutual Funds</td>
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<tr>
<td>09:40 - 10:15</td>
<td>Session 7: Market Microstructure</td>
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<tr>
<td>10:15 - 10:45</td>
<td>Coffee break</td>
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<tr>
<td>10:45 - 11:45</td>
<td>Keynote: Social Biases and Investor Behavior</td>
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<tr>
<td>11:45 – 13:00</td>
<td>Lunch</td>
</tr>
<tr>
<td>13:00</td>
<td>End</td>
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</tbody>
</table>
2. Doctoral Consortium

2.1 General Information

Date and time: April 24th, 2013, 11:45 - 18:00
Location: University of Hohenheim (Stuttgart, Germany)
Participating professors:
- Prof. Hans-Peter Burghof (University of Hohenheim, Germany)
- Prof. Robert Jung (University of Hohenheim, Germany)
- Prof. Alok Kumar (University of Miami, USA)
- Prof. Ryan Riordan (University of Ontario Institute of Technology, Canada)
- Prof. Tereza Tykvova (University of Hohenheim, Germany)

2.2 Program

Wednesday, April 24th, 2013

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
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<tbody>
<tr>
<td>10:30 - 11:00</td>
<td>Registration and welcome coffee at Boerse Stuttgart</td>
</tr>
<tr>
<td>11:00 - 11:45</td>
<td>Bus transfer to the University of Hohenheim</td>
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<tr>
<td>11:45 - 12:15</td>
<td>Paper Presentations – Part 1</td>
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<tr>
<td></td>
<td>Valuation and Properties of Leverage Endless Knock-out Certificates on Government Bond Futures</td>
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<tr>
<td></td>
<td>Oliver Entrop [1], Christian Peters* [2], Marco Wilkens [2]</td>
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<td></td>
<td>[1]: University of Passau, Germany</td>
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<tr>
<td></td>
<td>[2]: University of Augsburg, Germany</td>
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<tr>
<td>12:15 - 12:45</td>
<td>Planning for Retirement</td>
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<td></td>
<td>Terrance Martin* [1], Michael Finke [1]</td>
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<tr>
<td></td>
<td>[1]: Texas Tech University, USA</td>
</tr>
<tr>
<td>12:45 - 13:15</td>
<td>The Demand for Mortgage Insurance</td>
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<td></td>
<td>Ruben Cox* [1]</td>
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<tr>
<td></td>
<td>[1]: Rotterdam School of Management, Erasmus University, Netherlands</td>
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<tr>
<td>13:15 - 13:30</td>
<td>Break</td>
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<tr>
<td>13:30 - 14:00</td>
<td>Latency in Fragmented Markets</td>
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<td></td>
<td>Thomas Katzschner* [1]</td>
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<td></td>
<td>[1]: University of Jena, Germany</td>
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<tr>
<td>14:00 – 14:30</td>
<td>Routing Decisions in Fragmented Limit Order Markets</td>
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<td></td>
<td>Albert Menkveld [1], Marius Andrei Zoican* [1]</td>
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<tr>
<td></td>
<td>[1]: VU University Amsterdam, Netherlands</td>
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<tr>
<td>14:30 – 15:00</td>
<td>Coffee break</td>
</tr>
<tr>
<td>Time</td>
<td>Session</td>
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<tr>
<td>--------------</td>
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| 15:00 - 15:30| May I Have Your Attention, Please: The Market Microstructure of Investor Attention  
Christopher Fink [1], Thomas Johann* [1]  
[1]: University of Mannheim, Germany |
| 15:30 - 16:00| Does Limited Attention Affect Investors Choices  
Hedi Benamar* [1]  
[1]: HEC Paris, France |
| 16:00 - 16:15| Break                                                                  |
| 16:15 - 16:45| Persuasion and Persuasibility of Individual Investors by Scenarios  
Rainer Baule [1], Philip Blonski* [1], Thomas Schilli [2],  
Arnd Wiedemann [2]  
[1]: University of Hagen, Germany  
[2]: University of Siegen, Germany |
| 16:45 - 17:15| Yes, Value Investors Do Recommend Value Stocks, and They Are Profitable, too!  
Christian Curac* [1], Sebastian Lobe, Christian Walkshäusl [2]  
[1]: WHL Graduate School of Business and Economics, University of Lahr, Germany  
[2]: University of Regensburg, Germany |
| 17:15 - 18:00| Invited Talk & Discussion  
Do Retail Traders Suffer from High Frequency Traders?  
Ryan Riordan  
Assistant Professor  
University of Ontario Institute of Technology |
| 18:00        | Transfer & Wine Reception  
Bus transfer to Boerse Stuttgart |
| 19:00        | Wine reception at Boerse Stuttgart |
3. Main Conference

3.1 Session Overview

S1. Behavioral Finance I  
Thursday, 9:25 - 10:35

**Media Makes Momentum**
Alexander Hillert [1], Heiko Jacobs [1], Sebastian Müller* [1]
[1]: University of Mannheim, Germany
Discussant: Yigitcan Karabulut

**Can Facebook Predict Stock Market Activity?**
Yigitcan Karabulut* [1]
[1]: Goethe University Frankfurt, Germany
Discussant: Sebastian Müller

*) Presenting Author

Round Table  
Thursday, 11:00 - 11:45

**Retail investors in a complex word**
Panelists: Dr. Christoph Boschan (Member of the Executive Board of Boerse Stuttgart)
Prof. Ryan Riordan (University of Ontario Institute of Technology)
Jean Paul Servais (Chairman of the Management Committee of the Financial Services and Markets Authority)
Christian Vollmuth (Managing Director German Derivatives Association)
Moderator: Roland Klaus (Journalist)

S2. Behavioral Finance II  
Thursday, 12:50 - 14:00

**Investor Happiness**
Christoph Merkle* [1], Daniel Egan [2]
[1]: University of Mannheim, Germany
[2]: Barclays Plc
Discussant: Arvid Hoffmann

**What Makes Investors Optimistic, What Makes Them Afraid?**
Arvid Hoffmann* [1], Thomas Post [1]
[1]: Maastricht University, School of Business and Economics, Netherlands
Discussant: John Chalmers

*) Presenting Author
S3. Informed Trading
Thursday, 14:10 - 15:20
How Smart is Exchange Intermediated Money? Evidence from Listed Open-End Mutual Funds in Europe
William Li (1), Jerry Parwada* (1)
[1]: University of New South Wales, Australia
Discussant: Keith Gamble

Informed Retail Investors: Evidence from Retail Short Sales
Keith Gamble* (1), Wei Xu (2)
[1]: DePaul University, USA
[2]: HSBC School of Business, China
Discussant: Jerry Parwada

S4. Investment Decisions
Thursday, 15:50 - 17:00
The Performance of Individual Investors in Structured Financial Products
Oliver Entrop (2), Michael McKenzie (3), Marco Wilkens (3), Christoph Winkler* (3)
[1]: University of Passau, Germany
[2]: University of Sydney, Australia
[3]: University of Augsburg, Germany
Discussant: Torsten Walther

What is the Impact of Financial Advisors on Retirement Portfolio Choices and Outcomes?
John Chalmers* (1), Jonathan Reuter (2)
[1]: University of Oregon, USA
[2]: Boston College, USA
Discussant: Gil-Bazo Javier

S5. Investor Characteristics
Thursday, 17:30 - 18:40
Who Buys the Worst Mutual Funds? Fund Performance and Investor Characteristics
Hang Dong (1), Gil-Bazo Javier* (2)
[1]: Universidad Carlos III, Spain
[2]: Universitat Pompeu Fabra, Spain
Discussant: Christoph Winkler

Run, Walk, or Buy? Financial Literacy, Dual-Process Theory, and Investment Behavior
Markus Glaser (1), Torsten Walther* (1)
[1]: LMU Munich, Germany
Discussant: Christoph Merkle

*) Presenting Author
S6. Mutual Funds

**Analyst Forecasts and European Mutual Fund Trading**
Alexander Frank [1], Alexander Kerl* [1]
[1]: University of Giessen, Germany
Discussant: Maximilian Wimmer

**Tri-criterion Inverse Portfolio Optimization with Application to Socially Responsible Mutual Funds**
Sebastian Utz [1], Maximilian Wimmer* [1], Markus Hirschberger [2], Ralph E. Steuer [3]
[1]: University of Regensburg, Germany
[2]: Munich Re, Germany
[3]: University of Georgia, USA
Discussant: Christian Westheide

*S* Presenting Author

S7. Market Microstructure

**Designated Market Makers in Electronic Limit Order Books – A Closer Look**
Erik Theissen [1], Christian Voigt [2], Christian Westheide* [1]
[1]: University of Mannheim
[2]: Fidessa plc
Discussant: Alexander Kerl

*S* Presenting Author

Keynote presentation

**Social Biases and Investor Behavior**
Alok Kumar
University of Miami, Florida, USA
3.2 Presentations

S1. Behavioral Finance I  Thursday, 9:25 - 10:00

Media Makes Momentum
Alexander Hillert (1), Heiko Jacobs (1), Sebastian Müller (1)
(1): University of Mannheim, Germany

Presenting Author: Sebastian Müller
Discussant: Yigitcan Karabulut

Abstract: Relying on 2.2 million articles from 45 national and local U.S. newspapers between 1989 and 2010, we show that firms particularly covered (neglected) by the media exhibit ceteris paribus significantly stronger (weaker) momentum. The effect is more pronounced in states with higher investor individualism and among stocks predominantly held by overconfident fund managers. Findings suggest that media coverage exacerbates investor biases, leading return predictability to be strongest for firms in the spotlight of public attention. In line with prominent models such as Daniel et al. (1998), our results collectively support an overreaction-based explanation of the momentum effect.

Key Words: Momentum, media, overreaction, attention effects, investor biases
Can Facebook Predict Stock Market Activity?
Yigitcan Karabulut [1]
[1]: Goethe University Frankfurt, Germany

Presenting Author: Alexander Schober
Discussant: Sebastian Müller

Abstract: Using a novel and direct measure of investor sentiment, I find that Facebook's Gross National Happiness (GNH) has the ability to predict changes in both daily returns and trading volume in the US stock market. For instance, an increase of one standard deviation in GNH is associated with an increase of 12.86 basis points in market returns over the next day. Consistent with noise trader models, I find that the influence of GNH on market returns is temporary and is reversed during the following trading week. Moreover, I verify the empirical validity of the GNH measure by performing several tests in different natural settings.

Key Words: Investor sentiment, social media, behavioral finance, Facebook, social networks
Retail investors in a complex word

Panelists: Dr. Christoph Boschan (Member of the Executive Board of Boerse Stuttgart)
           Prof. Ryan Riordan (University of Ontario Institute of Technology)
           Jean Paul Servais (Chairman of the Management Committee of the Financial
           Services and Markets Authority)
           Christian Vollmuth (Managing Director German Derivatives Association)

Moderator: Roland Klaus (Journalist)

Panelists

Dr. Christoph Boschan

Member of the Executive Board Boerse Stuttgart

Dr. Christoph Boschan was appointed to the Management Board of Boerse Stuttgart AG with effect from 1 October 2012 and is responsible for Exchange Operations.

Dr. Christoph Boschan has passed the two German state examinations qualifying him to practise law (through Humboldt University in Berlin, and the Berlin Court of Appeals), and also holds a doctorate in law from Chemnitz University of Technology. Furthermore he passed several trader exams.

From 1999, while still a student, he worked as a securities trader with Tradegate AG. Following this, he held various positions in the field of legal consulting before switching to trading surveillance and market supervision at the Berlin Stock Exchange. Christoph Boschan subsequently worked as an advisor at Börse Berlin AG. Later, as authorised signatory with general commercial power of attorney at the Berlin Stock Exchange, he was responsible for Legal Affairs, Business Development and Strategy, mainly for Equiduct Trading.

After joining the Stuttgart Stock Exchange, from April 2010 Dr. Christoph Boschan was Managing Director of Baden-Württembergische Wertpapierbörse, where as part of his remit he was in charge of Legal Affairs, Rules and Regulations, Listing, Public Affairs, Best Execution and Education.
Prof. Ryan Riordan
University of Ontario Institute of Technology

Prof. Ryan Riordan is an assistant professor of finance at the University of Ontario Institute of Technology (UOIT), in Oshawa, Ontario. Prior to this he was an assistant professor at the Karlsruhe Institute of Technology (KIT) in Karlsruhe, Germany. At KIT, he lead a small research group on financial market innovation, focusing on market microstructure, international finance, algorithmic & high-frequency trading, retail & institutional trading.

His work has been published in the Journal of Financial Markets, the Journal of Financial and Quantitative Analysis, and the Journal of Banking and Finance, and been presented at numerous conferences and seminars. In 2012 he received a Lamfalussy Fellowship from the European Central Bank; and in 2009 the Josseph de la Vega Prize from the Federation of European Securities Exchanges.

Jean-Paul Servais
Chairman of FSMA, the Belgian Financial Services & Markets Authority

Jean-Paul Servais is Chairman of Belgium's Financial Services and Markets Authority (FSMA), member of the International organization of securities commissions (IOSCO) Executive Committee and of the Chair's Committee of the European Securities and Markets Authority's (ESMA). As Chair of the Investor Protection and Intermediaries Standing Committee (IPISC) established by ESMA, he has been deeply involved in many aspects of regulation designed to deliver greater transparency for investment products by simplifying both structure and cost for the benefit of investors. He is also member of the European Systemic Risk Board (ESRB) and of the NYSE Euronext College of Regulators.

Jean-Paul Servais holds a Masters degree of law from Université Libre de Bruxelles (ULB) and a Masters degree of Economics in Business Management from Vrije Universiteit Brussel (VUB). He is Part-time Lecturer (Professeur) at the ULB (Free University of Brussels) and author or co-author of more than 250 papers, publications and contributions to various national and international colloquia and conferences.
Christian Vollmuth
Managing Director
German Derivatives Association

Christian Vollmuth is Managing Director of the German Derivatives Association (Deutscher Derivate Verband DDV). He started with the Association in 2010, when he took up the position of General Counsel. As part of his responsibilities he oversees all legal aspects and regulatory issues concerning the structured products industry in Germany and Europe. He is mainly based in Berlin.

Before joining DDV he worked for nine years at Deutsche Bank in Frankfurt where his last position was that of a Senior Counsel and Director. Christian is admitted as lawyer in Germany. He regularly publishes articles in renowned industry publications and law journals.

Roland Klaus
Journalist

Roland Klaus works as a journalist for financial markets. He reported for CNBC and the German news channel N24 from Frankfurt Stock Exchange from 2004 to 2009. During the 10 years as moderator and stock market reporter for the news channel n-tv, he became well-known to the public.

Roland Klaus was born in 1970 in Temeschburg/Romania and grew up in Darmstadt. He graduated from Dortmund University in Journalism and Economics. While still being a students, he already reported for n-tv. In 2000, he founded the first web-tv station that reported daily on the new economy together with gatrixx.

After 20 years work experience in financial markets he states: “Stock markets are not only my profession, they are also my passion”.
Investor Happiness

Christoph Merkle (1), Daniel Egan (2)
[1]: University of Mannheim, Germany
[2]: Barclays Plc

Presenting Author: Christoph Merkle
Discussant: Arvid Hoffmann

Abstract: We study investor happiness in a panel survey of brokerage clients at a UK bank. When investors formulate expectations about future happiness, they set their aspirations depending on own portfolio risk levels, used benchmarks, investment horizon, overconfidence, and other individual characteristics. They are very accurate in their forecasts, only rarely are investors unsatisfied with an outcome they predicted to be happy with, and vice versa. However, the determinants of ex-post satisfaction only partially correspond to the ones found for expected happiness. In particular, relative performance plays an important role, as having outperformed other people contributes to investor happiness, as does active trading.

Key Words: Happiness, Expectation, Experience, Individual Investors
Arvid Hoffmann [1], Thomas Post [1]
[1]: Maastricht University, School of Business and Economics, Netherlands

Presenting Author: Arvid Hoffmann
Discussant: John Chalmers

Abstract: Optimism and fear are central determinants of individual investors’ trading and risk-taking behavior, but what makes investors optimistic or afraid? Using a unique combination of brokerage records and matching monthly survey measurements, we examine how investor optimism (return expectations) and fear (risk tolerance and risk perceptions) are updated in response to individual-level return and risk experiences. Past returns positively impact return expectations and risk tolerance, and negatively impact risk perceptions. Past risk, however, does not impact return expectations, risk tolerance, or risk perception. The results improve our understanding of mutual fund flows as well as the creation of asset-price bubbles.

Key Words: Individual Investors, Return Expectation, Risk Tolerance, Risk Perception
How Smart is Exchange Intermediated Money? Evidence from Listed Open-End Mutual Funds in Europe

William Li [1], Jerry Parwada [1]
[1]: University of New South Wales, Australia

Presenting Author: Jerry Parwada
Discussant: Keith Gamble

Abstract: Traditional mutual fund distribution channels are increasingly being complemented by the quoting of open-end funds on stock exchanges in Europe and, starting after 2012, in Australia. This paper utilizes data on European open-end mutual funds that trade on German exchanges to study differences in the behavior of exchange intermediated flows and traditional flows. We empirically test whether the well-known flow-performance relationship holds for listed funds. We find evidence of a breakdown in the flow-performance relationship for listed funds, especially for middle quintile performing funds. Flows that originate from the exchange show performance predictability contrary to money sourced through other channels. The exchange trading channel is largely used as a disposal avenue for mutual funds units, causing a leakage of €7bn from the European mutual fund industry over the last decade. Overall, we find the exchange-traded channel brings net benefits to investors.

Key Words: Mutual Funds, Stock exchanges, Performance, Flows, Smart money
Informed Retail Investors: Evidence from Retail Short Sales
Keith Gamble [1], Wei Xu [2]
[1]: DePaul University, USA
[2]: HSBC School of Business, China

Presenting Author: Keith Gamble
Discussant: Jerry Parwada

Abstract: Drawing on the concept of addiction and of gambling behavior in particular, this study explores whether retail investors trading in stocks might have something in common with compulsive gamblers. Furthermore, it explores the risk perceptions and risk taking of individuals engaged in the stock market trading and those gambling in general. A booklet of questionnaires, including the South Oaks Gambling Screen (Lesieur & Blume, 1987), adapted for stock market trading, and the financial part of the Risk Taking Scale and Risk Perception Scale (Weber et al., 2002) was completed by a sample (582 responses) of active investors, gamblers and a control group. The results suggest that retail trading in the stock market is addictive, exhibiting persistent levels of pathological addiction across diverse stock exchange environments, both bullish and bearish (2000-2008). The decision to become an active investor or gambler has been found to entail a greater level of risk friendliness. Gender, age and education play an influential role in determining investment risk preferences and perceptions.
Furthermore, it is evident that pathologically addicted retail investors underestimate the risk of trading in the stock market more than non-addicted individuals, considering it a closer match with their risk appetite.

Key Words: trading, compulsive gambling, addiction, risk perception, retail investor
The Performance of Individual Investors in Structured Financial Products

Oliver Entrop (1), Michael McKenzie (2), Marco Wilkens (3), Christoph Winkler (3)

(1): University of Passau, Germany
(2): University of Sydney, Australia
(3): University of Augsburg, Germany

Presenting Author: Christoph Winkler
Discussant: Torsten Walther

Abstract: Literature often casts structured financial products in a negative light. Reasons are overpricing by issuing banks, high transaction costs and individual investors’ poor selection abilities. In order to quantify the impact of these potential drawbacks on individual investors’ wealth, we measure and analyze their realized risk-adjusted performance in investment certificates considering all of those negative effects. The study is based on trades and portfolio holdings of 133,353 retail investors in discount and bonus certificates and common stocks of a large discount broker. Our main findings are: (i) Individual investors’ risk-adjusted performance in certificate and in stock investments is negative, both before and after deduction of costs. (ii) Their underperformance can mainly be explained by the overpriced structured financial products and the investors’ poor underlying/stock selection ability. (iii) Furthermore investors suffer from product complexity. (iv) Bonus certificate and stock investors are prone to the disposition effect.

Key Words: retail derivatives, certificates, investor behavior
What is the Impact of Financial Advisors on Retirement Portfolio Choices and Outcomes?
John Chalmers (1), Jonathan Reuter (2)
(1): University of Oregon, USA
(2): Boston College, USA

Presenting Author: John Chalmers
Discussant: Gil-Bazo Javier

Abstract: Within the Oregon University System’s defined contribution retirement plan, one investment provider offers access to face-to-face financial advice through its network of brokers. We find that younger, less highly educated, and less highly paid employees are more likely to choose this provider. To benchmark the portfolios of broker clients, we use the actual portfolios of self-directed investors and counterfactual portfolios constructed using target-date funds, a popular default investment. Broker clients allocate contributions across a larger number of investments than self-directed investors, and they are less likely to remain fully invested in the default option. However, broker clients’ portfolios are significantly riskier than self-directed investors’ portfolios, and they underperform both benchmarks. Exploiting across-fund variation in broker compensation, we find that broker clients’ allocations are higher when broker fees are higher. Survey responses from current plan participants support our identifying assumption that the portfolio choices of broker clients reflect the recommendations of their brokers.

Key Words: financial advice
S5. Investor Characteristics

Who Buys the Worst Mutual Funds? Fund Performance and Investor Characteristics

Hang Dong (1), Gil-Bazo Javier (2)
(1): Universidad Carlos III, Spain
(2): Universitat Pompeu Fabra, Spain

Presenting Author: Gil-Bazo Javier
Discussant: Christoph Winkler

Abstract: The abundant empirical evidence on the persistence of mutual fund underperformance raises the question of who buys those funds that are expected to underperform. Given the scarcity of comprehensive data on individual investor decisions in large markets, we can only speculate that poor investor decisions may stem from low education, low financial literacy, lack of experience, or judgemental biases. To overcome this data limitation, we use the sociodemographic characteristics of US visitors to mutual fund websites to proxy for investor characteristics. We find that differences in sociodemographic characteristics are systematically associated with predicted fund performance: Funds with a higher fraction of female, older or low-income investors are associated with worse predicted performance. We also find that documented differences in the optimality of investor choices stem from differences in the ability to recognize persistence in performance. Finally, we find only limited evidence that heterogeneity in sensitivity to fund marketing across investor sociodemographic groups can explain differences in fund choices.

Key Words: mutual funds, retail investor decisions, sociodemographic characteristics, household finance
Run, Walk, or Buy? Financial Literacy, Dual-Process Theory, and Investment Behavior
Markus Glaser [1], Torsten Walther [1]
[1]: LMU Munich, Germany

Presenting Author: Thorsten Walther
Discussant: Christoph Merkle

Abstract: Combining recent empirical findings on the usefulness of financial literacy for investment decisions and literature from psychology, we argue that the behavior of people with a high level of financial literacy might depend on the prevalence of the two thinking styles according to dual-process theories: intuition and cognition. We hypothesize that a high level of financial literacy might be overruled if subjects believe in trusting their hunches or do not rely on analytical thinking. We expect this interaction effect to be most pronounced when people are stressed, e.g., when their stock portfolio performs badly. We test these hypotheses within an innovative experimental design which makes the participants experience the stock market development and their personal performance. Our results confirm the hypothesized interaction effects. We contribute to the existing literature by providing a further step to understand the mechanism of how and when personal characteristics affect behavior.

Key Words: Individual Investors, Trading Activity, Financial Literacy, Dual-Process Theories, Rational-Experiential Inventory
Analyst Forecasts and European Mutual Fund Trading
Alexander Frank (1), Alexander Kerl (1)
(1): University of Giessen, Germany

Presenting Author: Alexander Kerl
Discussant: Maximilian Wimmer

Abstract: This paper addresses the questions whether European mutual fund managers rely on sell-side analyst information with respect to their investment decisions and whether this behavior impacts fund performance. Based on a sample of over 4,300 European mutual funds and around 1.2 million portfolio changes, we not only use consensus stock recommendations and earnings forecast revisions as forecast measures but, additionally, focus on implied return revisions, based on target prices. Results show that European mutual funds significantly increase (decrease) their holdings in stocks when any of the three consensus forecast measures increases (decreases) within the quarter prior to the observation period. Further results show that mutual fund managers primarily attribute high information value to consensus forecast revisions that contain positive information, that are based on a sufficiently high number of inputs, and with more unanimous inputs to the consensus. Additionally, the informativeness of analyst forecast revisions for mutual fund trading increases in the level of foreign institutional ownership. Finally, following sell-side research seems to be beneficial for mutual fund managers since our results show that stock trades that are in line with analyst forecast revisions significantly outperform trades that are contrary to analyst research.

Key Words: Mutual fund trading, sell-side analyst reports, consensus forecasts, forecast dispersion, ownership structure, mutual fund performance
Tri-criterion Inverse Portfolio Optimization with Application to Socially Responsible Mutual Funds

Sebastian Utz [1], Maximilian Wimmer [1], Markus Hirschberger [2], Ralph E. Steuer [3]

[1]: University of Regensburg, Germany
[2]: Munich Re, Germany
[3]: University of Georgia, USA

Presenting Author: Maximilian Wimmer
Discussant: Christian Westheide

Abstract: We present a framework for inverse optimization in a Markowitz portfolio model that is extended to include a third criterion. This causes the traditional nondominated frontier to become a surface. Until recently, it had not been possible to compute such surfaces. But by using a new method that is able to generate the nondominated surfaces of tri-criterion portfolio selection problems, we are able to compute via inverse optimization the implied risk tolerances of given funds that pursue an additional objective besides risk and return. In applying this capability to a broad sample of conventional and socially responsible (SR) mutual funds, we find that after the screening process there appears to be no significant difference in how assets are allocated in socially responsible and conventional mutual funds. But we find that portfolios computed with the tri-criterion model used in this paper can outperform real funds along the social dimension without giving up return.

Key Words: Socially responsible investing, Inverse optimization, Portfolio selection, Multiple criteria optimization, Nondominated surfaces, Multiple criteria decision making
Designated Market Makers in Electronic Limit Order Books – A Closer Look

Erik Theissen (1), Christian Voigt (2), Christian Westheide (1)

(1): University of Mannheim, Germany
(2): Fidessa plc

Presenting Author: Christian Westheide
Discussant: Alexander Kerl

Abstract: Many exchanges operating an electronic open limit order book employ designated market makers to improve liquidity, particularly for less liquid stocks. Previous research has shown that the existence of a market maker improves liquidity, and that the share price reacts favorably to the announcement that a firm hires a market maker. Little is known, however, about what market makers actually do. We try to fill this gap. Using a data set covering 110 German stocks we analyze the trading activity of market makers in detail. Their participation rates as a function of firm size (or, alternatively, trading volume) display a u-shaped pattern. They are highest for the smallest firms, then decreases in firm size but increases again for the largest size quintile. Market makers not only provide liquidity but also take liquidity. Other traders take liquidity supplied by market makers particularly in times of high volatility, high bid-ask spreads and high informational asymmetries.

Finally, we demonstrate that market makers do, on average, not earn profits.

Key Words: Designated market makers, Electronic limit order book
The behavior of individual investors

Prof. Alok Kumar

University of Miami, Florida

Alok Kumar is the Gabelli Asset Management Professor of Finance at the School of Business Administration of the University of Miami. Professor Kumar is a leading researcher in the field of behavioral finance and empirical asset pricing. His work has appeared in such notable journals as the Journal of Finance, the Review of Financial Studies, the Journal of Financial Economics, the Journal of Financial and Quantitative Analysis, the Journal of Financial Markets, and Management Science.
4. General Information

4.1 Registration and Information

The registration desk is located in the entrance hall of Boerse Stuttgart (Börsenstraße 4, 70174 Stuttgart, Germany). Attendance at the 2nd Retail Investment Conference (ERIC) is only possible with a confirmation of registration.

The desk will be open as follows:

<table>
<thead>
<tr>
<th>Event</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctoral Consortium</td>
<td>10:30 - 11:00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Conference</td>
<td>18:00 - 21:00</td>
<td>8:00 - 19:00</td>
<td>8:00 - 13:00</td>
</tr>
</tbody>
</table>

Please allow sufficient time for registration.

If you have any questions during the conference, please refer to the registration desk or dial +49 176 31141607 or +49 176 62048721.

4.2 Conference Chairs

Prof. Hans-Peter Burghof
University of Hohenheim
Chair of Banking and Financial Services
Schloss Osthof-Nord
70599 Stuttgart, Germany

Prof. Ryan Riordan
University of Ontario Institute of Technology
2000 Simcoe Street North
Oshawa, Ontario, Canada L1H 7K4

Prof. Christof Weinhardt
Karlsruhe Institute of Technology
Institute of Information Systems and Marketing
Englerstraße 14
76131 Karlsruhe, Germany
4.3 Organization Committee

Stephan Meyer
Karlsruhe Institute of Technology
Shared Research Group Financial Market Innovation
Englerstraße 14
76131 Karlsruhe, Germany

Sebastian Schroff
University of Hohenheim
Chair of Banking and Financial Services
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Ulli Spankowski
University of Hohenheim
Chair of Banking and Financial Services
Schloss Osthof-Nord
70599 Stuttgart, Germany

Dr. Martin Wagener
Boerse Stuttgart Holding GmbH
Börsenstraße 4
70174 Stuttgart, Germany
4.4 Program Committee

We thank the Program Committee members for their reviews ensuring an impressive body of high-quality presentations throughout the conference.

Mark Cringle  
Prof. Daniel Dorn  
Prof. Oliver Entrop  
Prof. Peter Gomber  
Prof. Andreas Hackethal  
Prof. Jürgen Huber  
Prof. Christian Koziol  
Prof. Dennis Kundisch  
Christoph Lammersdorf  
Prof. Albert Menkveld  
Prof. Jan Muntermann  
Prof. Werner Neus  
Prof. Andreas Park  
Prof. Blake Phillips  
Prof. Stefan Ruenzi  
Prof. Hendrik Scholz  
Prof. Erik Theissen  
Prof. Tereza Tyková  
Prof. Martliese Uhrig-Homburg  
Prof. Mark Van Achter  
Prof. Jos Van Bommel  
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Prof. Marco Wilkens  

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University of Passau  
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University of Mannheim  
University of Erlangen-Nürnberg  
University of Mannheim  
University of Hohenheim  
Karlsruhe Institute of Technology  
Erasmus University Rotterdam  
University of Luxembourg  
University of Delaware  
University of Augsburg
4.5 Important Phone Numbers

Conference Office
Sebastian Schroff: +49 176 31141607
Stephan Meyer: +49 176 62048721

Boerse Stuttgart
+49 711 222 985-0
www.boerse-stuttgart.de

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Fire Department: 112
Emergency Doctor: 112

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Service Taxi Stuttgart: +49 163 55 17 922
Stuttgarter Taxi Service: +49 177 242 07 64

Public Transportation
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www.vvs.de

Train (Deutsche Bahn AG)
+49 180 599 66 33 [service number]
www.bahn.de

Stuttgart Airport
+49 180 594 84 44 [service number]
www.stuttgart-airport.com
4.6 Directions

University of Hohenheim

The Doctoral Consortium takes place at the University of Hohenheim, Stuttgart. A bus transfer from and to Boerse Stuttgart will be organized.

Visiting Address: University of Hohenheim  
70599 Stuttgart  
Germany

By car

Coming from Stuttgart town centre: At Charlottenplatz (near the “Schloss” palace) turn from the B14 road (Konrad-Adenauer-Straße) into B27 (Charlottenstraße) and carry straight on. The road will become a dual carriageway later on. Take exit S-Hohenheim. Follow the signs for S-Plieningen/S-Hohenheim for some kilometres until you reach S-Plieningen. Turn left towards Hohenheim university. At next opportunity turn right. Follow the street until you reach the car park.

Public transport from Stuttgart rail station

Take the U7 underground/tram line (leaving from low level station) towards Ostfildern. Exit at station “Ruhbank (Fernsehturm)”, change for bus number 70 towards Plieningen, which stops at Universität Hohenheim.

Or: Take the U5 or U6 underground/tram line (leaving from low level station) towards Leinfelden or Möhringen. At Möhringen station change for U3 towards Plieningen. Exit train at Plieningen Garbe. From here Universität Hohenheim can be reached on foot or by bus number 65 towards Obertürkheim [stopping at Hohenheim university].

Boerse Stuttgart

The wine reception and the main conference will be held at Boerse Stuttgart situated in Stuttgart’s city center.

Visiting Address: Boerse Stuttgart  
Börsenstraße 4  
70174 Stuttgart  
Germany

By car

A 8 from Karlsruhe / A 81 from Singen: Stuttgart motorway junction, Stuttgart-Zentrum exit, continue on the A 831 towards Stuttgart-Zentrum.
A 831 towards Stuttgart-Zentrum: After the Stuttgart motorway junction, towards Stuttgart-Zentrum, after the end of the motorway continue straight on towards Stuttgart-West until the traffic lights at the end of the feeder road, take the right-hand lane towards Stuttgart-West until Rotebühlplatz, continue straight on into Theodor-Heuss-Straße, after L-Bank on the left keep to the left, take the first opportunity to turn, right into Schellingstraße, then turn left into Huberstraße.

**By plane**

Take the S2 or S3 train (S-Bahn) from Stuttgart airport directly to the main station in the city centre. From there take the U9 (towards Vogelsang) for one station or the U14 (towards Heslach) until the Friedrichsbau (Börse) stop.

**By train**

To Stuttgart main station, from there take the U9 (towards Vogelsang) for one station further or the U14 (towards Heslach) until the Friedrichsbau (Börse) stop.

**Gala Dinner**

The reception will take place at the foyer of Kunstmuseum and the Gala Dinner in the same building at Restaurant Cube (top floor).

**Visiting Address:**

Kunstmuseum  
Cube Restaurant  
Kleiner Schlossplatz 1  
70173 Stuttgart  
Germany
4.7 Stuttgart City Map

Conference Venue
A Boerse Stuttgart
Gala Dinner
B Restaurant Cube
Conference Hotels
C MotelOne
D Arcotel Camino
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