# Article information:

Individual Investors and Local Bias - SEASHOLES - 2010 - The Journal of Finance - Wiley Online Library
<http://onlinelibrary-wiley-com-s.vpn.scau.edu.cn:443/doi/full/10.1111/j.1540-6261.2010.01600.x>

# Article summary:

1. Individual investors tend to have a preference for local stocks, with the typical US household having about 30% of its portfolio invested in stocks within a 250-mile radius of their home.

2. The ability to exploit nonpublic information could be one reason for this local bias, as individuals may be able to process and exploit locally available information to earn excess returns.

3. However, empirical analysis shows that individuals' local portfolios do not generate abnormal performance, and they do not appear to have value-relevant information about the local stocks they hold.

# Article rating:

Appears moderately imbalanced: The article provides some useful information, but is missing several important points or pieces of evidence that would be required to present the discussed topics in a balanced and reliable way. You are encouraged to seek a more balanced perspective on the presented issues by exploring the provided research topics and looking at different information sources.

# Article analysis:

The article "Individual Investors and Local Bias" by Seasholes (2010) explores the phenomenon of local bias in individual investors' portfolios. The author provides evidence that individuals tend to invest more heavily in stocks headquartered within a 250-mile radius of their home, which raises the question of why investors have a preference for local stocks. The paper suggests that one reason for this bias could be the ability to exploit nonpublic information, which may lead to superior returns on local investments.

However, the article's claims are not entirely supported by empirical evidence. While some studies suggest that individuals can earn excess returns by exploiting locally available information, the author's own analysis using holdings-based calendar-time portfolios does not find any significant abnormal performance in individuals' local portfolios. Regression analysis with controls for market factors also shows that portfolio alphas are not statistically different from zero.

Moreover, the article does not explore potential biases or sources of error in its methodology. For example, it is unclear how the author defines "local" stocks or how they account for differences in investor demographics or investment strategies. The paper also does not consider alternative explanations for local bias, such as familiarity or sentiment towards hometown companies.

Additionally, the article presents a somewhat promotional tone towards stock picking and active management as a potential strategy for achieving superior returns on local investments. However, this approach may carry higher costs and risks than passive indexing or diversification across multiple regions and sectors.

Overall, while the article provides interesting insights into individual investors' behavior and portfolio preferences, it falls short in providing robust evidence and considering alternative explanations and potential biases. Further research is needed to fully understand the drivers and implications of local bias in investment decisions.

# Topics for further research:

* Alternative explanations for local bias in investment decisions
* Demographic factors influencing individual investors' portfolio preferences
* Risks and costs associated with active management and stock picking
* Impact of sentiment and familiarity on investment decisions
* Empirical evidence on the performance of local portfolios
* Methodological limitations and potential biases in studies on local bias

# Report location:

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