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The Association between Nonprofessional Investors' Information Choices and Their Portfolio Returns: The Importance of Investing Experience*

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The Association between Nonprofessional Investors' Information Choices and Their Portfolio Returns: The Importance of Investing Experience*

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1. Introduction

A key objective of regulators and standard-setters is to provide useful information to investors so that they can make informed investment decisions (Financial Accounting Standards Board [FASB] 1978; Johnson 2005). For example, the FASB and the International Accounting Standards Board (IASB) Joint Financial Statement Presentation Project is aimed at improving disclosures to facilitate investor acquisition and use of financial information (FASB 2007). Although there are over 41 million nonprofessional investors (hereafter "investors") investing directly in the U.S. stock market (Securities Industry Association [SIA] 2002), there is little evidence on how these individuals' information choices influence their investment decisions. We explore this link by examining the relationship between nonprofessional investors' financial information choices and their portfolio returns. We also investigate the role investing experience plays in this relationship.

To conduct our analysis, we classify financial information into one of two types: unfiltered and filtered. A standard definition of unfiltered or filtered information does not exist in the literature. We define "unfiltered" information as information disclosed by management and unaltered by professional intermediaries (e.g., a firm's Form 10-K). We define "filtered" information as information packaged by a professional intermediary for consumption by investors (e.g., a Value Line analyst

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