

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

W. Brooke Elliott, Frank D. Hodge, Kevin E. Jackson

First published: 15 January 2010

<https://doi.org/10.1506/car.25.2.7>

* Accepted by Steven Salterio. We thank Sarah Bonner, Bob Bowen, Nerissa Brown, Rajib Doogar, Tom Dyckman, Neil Fargher, Annie Farrell, Susan Krische, Dawn Matsumoto, Dale Morse, Mark Nelson, Mark Peecher, Shiva Rajgopal, Ed Riedl, Steve Salterio (associate editor), Terry Shevlin, D. Shores, Steve Smith, Bill Tayler, two anonymous reviewers and workshop participants at Cornell University, University of Cincinnati, University of Illinois Urbana-Champaign, University of Southern California, 2005 University of British Columbia, University of Oregon and University of Washington (UBCOW) Conference, the 2005 American Accounting Association (AAA) Annual Meeting, and the 2005 AAA ABO Section Meeting for helpful comments. We thank Hongmei Zhao for her research assistance. We thank the individual investors who participated in this project and the regional chapter of the National Association of Investors Corporation for access to their members. Frank Hodge acknowledges support of the William R. Gregory and Lane A. Daley Fellowships.



This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

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

W. BROOKE ELLIOTT, *University of Illinois at Urbana-Champaign*

FRANK D. HODGE, *University of Washington*

KEVIN E. JACKSON, *University of Illinois at Urbana-Champaign*

I. 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

* Accepted by Steven Salterio. We thank Sarah Bonner, Bob Bowen, Nerissa Brown, Rajib Doogar, Tom Dyckman, Neil Fargher, Annie Farrell, Susan Krusche, Dawn Matsumoto, Dale Morse, Mark Nelson, Mark Peecher, Shiva Rajgopal, Ed Riedl, Steve Salterio (associate editor), Terry Shevlin, D. Shores, Steve Smith, Bill Taylor, two anonymous reviewers and workshop participants at Cornell University, University of Cincinnati, University of Illinois Urbana-Champaign, University of

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Barber, B., C. Heath, and T. Odean. 2003. Good reasons sell: Reason-based choice among group and individual investors in the stock market. *Management Science* 49 (12): 1636–52.

[Web of Science®](#) [Google Scholar](#)

Barber, B., and T. Odean. 2000a. Too many cooks spoil the profits: The performance of investment clubs. *Financial Analysts Journal* 56 (1): 17–25.

[Google Scholar](#)

Barber, B., and T. Odean. 2000b. Trading is hazardous to your wealth: The common stock investment performance of individual investors. *Journal of Finance* 55 (2): 773–806.

[Web of Science®](#) [Google Scholar](#)

Barber, B., and T. Odean. 2001. Boys will be boys: Gender, overconfidence, and common stock investment. *Quarterly Journal of Economics* 116 (1): 261–92.

[Web of Science®](#) [Google Scholar](#)

Bertaut, C. 1998. Stockholding behavior of U.S. households: Evidence from the 1983-1989 survey of consumer finances. *Review of Economics and Statistics* 80 (2): 263–75.

[Web of Science®](#) [Google Scholar](#)

Bonner, S. 2007. *Judgment and decision making in accounting*. Upper Saddle River, NJ: Prentice Hall.

[Google Scholar](#)

Bonner, S., and B. Lewis. 1990. Determinants of auditor expertise. *Journal of Accounting Research* 28 (Supplement): 1–20.

[Web of Science®](#) [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

Bouwman, M. J., P. A. Frishkoff, and P. Frishkoff. 1987. How do financial analysts make decisions? A process model of the investment screening decision. *Accounting, Organizations and Society* 12 (1): 1-29.

[Web of Science®](#)  | [Google Scholar](#) 

Byrnes, N. 2002. The downside of disclosure. *Business Week*, August 19-26, 100.

[Google Scholar](#) 

Chang, L., and K. Most. 1985. *The perceived usefulness of financial statements for investors' decisions*. Miami: Florida International University Press.

[Google Scholar](#) 

Elliott, W. B. 2006. Are investors influenced by pro forma emphasis and reconciliations in earnings announcements *The Accounting Review* 81 (1): 113-33.

[Web of Science®](#)  | [Google Scholar](#) 

Elliott, W. B., F. D. Hodge, S. J. Kennedy, and M. Pronk. 2007. Are MBA students a good proxy for non-professional investors *The Accounting Review* 82 (1): 139-68.

[Web of Science®](#)  | [Google Scholar](#) 

Emshwiller, J. R. 2005. Opening the books: Corporate disclosure has come a long way over the decades; but it still has a ways to go. *Wall Street Journal*, October 17, R6.

[Google Scholar](#) 

Financial Accounting Standards Board (FASB). 1978. *Statement of Financial Accounting Concepts No. 1: Objectives of financial reporting by business enterprises*. Stamford, CT: FASB.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

[Manage Preferences](#)

[Accept All](#)

[Reject Non-Essential](#)

Frederickson, J. R., and J. S. Miller. 2004. The effect of pro forma earnings disclosures on analysts' and nonprofessional investors' equity valuation judgments. *The Accounting Review* 79 (3): 667–86.

[Web of Science®](#) | [Google Scholar](#)

Glaser, M. 2003. *Online broker investors: Demographic information, investment strategy, portfolio positions, and trading activity*. Working paper, University of Mannheim.

[Google Scholar](#)

Glaser, M., and M. Weber. 2005. *Which past returns affect trading volume?* Working paper, University of Mannheim.

[Google Scholar](#)

Glaser, M., and M. Weber. 2007. Overconfidence and trading volume. *Geneva Risk and Insurance Review* 32 (1): 1–36.

[Web of Science®](#) | [Google Scholar](#)

Henry, D. 2004. Fuzzy numbers. *Business Week*, October 4, 78–88.

[Google Scholar](#)

Hirst, D. E., K. E. Jackson, and L. Koonce. 2003. Improving financial reports by revealing the accuracy of prior estimates. *Contemporary Accounting Research* 20 (1): 165–93.

[Web of Science®](#) | [Google Scholar](#)

Hirst, D. E., and P. E. Hopkins. 1998. Comprehensive income reporting and analysts' valuation judgments. *Journal of Accounting Research* 36 (Supplement): 47–75.

[Web of Science®](#) | [Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Hodge, F. D., R. D. Martin, and J. H. Pratt. 2006. Audit qualifications of income-decreasing accounting choices. *Contemporary Accounting Research* 23 (2): 369-94.

[Web of Science®](#) | [Google Scholar](#)

Hodge, F. D., and M. Pronk. 2006. The impact of expertise and investment familiarity on investors' use of online financial reporting. *Journal of Accounting, Auditing and Finance* 21 (3): 267-92.

[Google Scholar](#)

Hopkins, P. E. 1996. The effect of financial statement classification of hybrid financial instruments on financial analysts' stock price judgments. *Journal of Accounting Research* 34 (Supplement): 33-50.

[Web of Science®](#) | [Google Scholar](#)

Hunton, J. E., and R. A. McEwen. 1997. An assessment of the relation between analysts' earnings forecast accuracy, motivational incentives, and cognitive information search strategy. *The Accounting Review* 72 (4): 497-516.

[Web of Science®](#) | [Google Scholar](#)

Ivkovic, Z., and W. Weisbenner. 2005. Local does as local is: Information content of geography of individual investors' common stock investments. *Journal of Finance* 60 (1): 267-306.

[Web of Science®](#) | [Google Scholar](#)

Jacoby, J. M., M. Morrin, G. Johar, Z. Gurhan, A. Kuss, and D. Mazusky. 2001. Training novice investors to become more expert: The role of information accessing strategy. *Journal of Psychology and Financial Markets* 2 (2): 69-79.

[Google Scholar](#)

Johnson, L. T. 2005. Relevance and reliability. *The FASB Report*, February 28.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Libby, R. 1995. The role of knowledge and memory in audit judgment. In *Judgment and Decision Making Research in Accounting and Auditing*, eds. R. Ashton and A. Ashton, 176–206. Cambridge, MA: Cambridge University Press.

[Google Scholar](#) 

Libby, R., and J. Luft. 1993. Determinants of judgment performance in accounting settings: Ability, knowledge, motivation and environment. *Accounting, Organizations and Society* 18 (5): 425–50.

[Web of Science®](#)  | [Google Scholar](#) 

Magat, W. A., J. W. Payne, and P. F. Brucato. 1986. How important is information format? An experimental study of home energy audit programs. *Journal of Policy Analysis and Management* 6 (1): 20–34.

[Web of Science®](#)  | [Google Scholar](#) 

Maines, L. A., and L. S. McDaniel. 2000. Effects of comprehensive income characteristics on nonprofessional investors' judgments: The role of financial-statement presentation format. *The Accounting Review* 75 (2): 179–207.

[Web of Science®](#)  | [Google Scholar](#) 

Markowitz, H. 1952. Portfolio selection. *The Journal of Finance* 7 (1): 77–91.

[Web of Science®](#)  | [Google Scholar](#) 

Masters, R. 1989. Study examines investors' risk-taking propensities. *Journal of Financial Planning* 2 (3): 151–5.

[Google Scholar](#) 

Moore, J., and A. Reichert. 1983. An analysis of the financial management techniques currently employed by large U.S. corporations. *Journal of Business Finance and Accounting* 10 (4): 623–45.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

[Google Scholar](#) 

O'Hara, T., and K. Janke. 1998. *Starting and running a profitable investment club*. New York: Random House.

[Google Scholar](#) 

Oppenheim, A. N. 1992. *Questionnaire design, interviewing, and attitude measurement*. New York: Pinter Publishers.

[Google Scholar](#) 

Payne, J. W., J. R. Bettman, and E. J. Johnson. 1993. *The adaptive decision maker*. Cambridge, MA: Cambridge University Press.

[Web of Science®](#)  | [Google Scholar](#) 

Penman, S. 2001. *Financial statement analysis and security valuation*. New York: McGraw-Hill/Irwin.

[Google Scholar](#) 

Rea, L., and R. Parker. 1997. *Designing and conducting survey research*, 2nd ed. San Francisco: Jossey-Bass.

[Google Scholar](#) 

Reilly, F. K., and K. C. Brown. 1997. *Investment analysis and portfolio management*. Orlando, FL: Dryden Press.

[Google Scholar](#) 

Russo, J. E. 1977. The value of unit price information. *Journal of Marketing Research* 14 (2): 193-201.

[Web of Science®](#)  | [Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

Securities and Exchange Commission (SEC). 2004. The investor's advocate: How the SEC protects investors and maintains market integrity. <http://www.sec.gov>.

[Google Scholar](#) 

Securities Industry Association (SIA). 2001. *Costs and benefits of regulation fair disclosure*. New York: SIA.

[Google Scholar](#) 

Securities Industry Association (SIA). 2002. *Equity ownership in America*. New York: SIA.

[Google Scholar](#) 

Sedor, L. M. 2002. An explanation for unintentional optimism in analysts' earnings forecasts. *The Accounting Review* 77 (4): 731-53.

[Web of Science®](#)  | [Google Scholar](#) 

SRI International. 1987. *Investor information needs and the annual report*. Morristown, NJ: Financial Executives Research Foundation.

[Google Scholar](#) 

Sternberg, R. J., R. K. Wagner, and W. M. Williams. 1995. Testing common sense. *American Psychologist* 50 (11): 912-27.

[Web of Science®](#)  | [Google Scholar](#) 

Wallace, R., and C. Mellor. 1988. Nonresponse bias in mail accounting surveys: A pedagogical note. *British Accounting Review* 20 (2): 131-9.

[Google Scholar](#) 

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#) 

Manage Preferences

Accept All

Reject Non-Essential

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

HELP & SUPPORT

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

[Sitemap](#)

OPPORTUNITIES

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

CONNECT WITH WILEY

[The Wiley Network](#)

[Wiley Press Room](#)

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential