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The Behavior of Japanese Individual Investors During Bull and Bear Markets

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Notes

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[2]We also conduct analyses using only firms whose fiscal year begin in April (69% of our firms fit this criteria), but the results remain the same.

[3]The model of Daniel et al. [2001] provides a possible explanation for our risk findings. Their model suggests that less confident investors will use systematic risk measures as a signal for expected return. When investors become overconfident, like during a bull market, they may focus less on relevant or statistically-oriented information such as systematic risk measures. This might explain why Japanese individuals hold risky stocks primarily during a bear market instead of a bull market. However, we admit that we are merely applying a behavioral explanation to a result ex post, which is easy to do.

[4]To report portfolio t-statistics we estimate the following equation by year: Level = $\alpha+\delta\times$ Volatility. We use these annual estimates of α and δ during the 6 bull market years to compute t-statistics to test whether the coefficients are different from zero and report them in [brackets] in the top half of the table. As the bottom half of the table tests the difference between bull and bear market behavior, we conduct a difference in means test of the annual α and δ estimates between the 6 bull market observations and the 10 bear market estimates. The resulting t-statistics are reported in [brackets] in the bottom half of the table.