Credit and Capital Markets, Volume 54, Issue 4, pp. 669 – 678
Reports

Retail Investor Behavior, Fintechs and Sustainable Finance – Insights from the 6th European Retail Investment Conference (ERIC)[1]

Hans-Peter Burghof*, Nazmie Sabani** and Patrick Jaquart***

Abstract

The 6th European Retail Investment Conference was hosted by the Stuttgart Stock Exchange from May 12th to 14th, 2021. Due to the persisting global pandemic, this year's conference was held exclusively via online platforms. The conference chairs invited academics and practitioners to participate and discuss empirical and theoretical research focusing on retail investor products and services, new trends in the behavior of private customers, investors' decision-making, investor protection schemes and market microstructure. The keynote about "Climate Finance" was held by Prof. Dr. Zacharias Sautner, Professor of Finance at Frankfurt School of Finance & Management.

I. Introduction

From May 12th to 14th, 2021, the European Retail Investment Conference (ERIC) was held and organized by Boerse Stuttgart, Germany, for the 6th time. Due to the ongoing global pandemic, this year's conference had to be redirected entirely to online platforms. As in previous years, ERIC's core objective has been to shed light on the behavior and decision-making of retail investors in capital markets. The topics of the 6th conference were particularly characterized by regulatory developments and new trends in the retail investment sector. As technological innovations continue to drive tremendous changes in the investment behavior of retail customers by simplifying trades and reducing costs significantly, this area was also discussed lively. Scientific analyses of such issues became even

1 Financial Support from Boerse Stuttgart is gratefully acknowledged.

* Prof. Dr. Hans-Peter Burghof, University of Hohenheim, Department of Banking and Finance, 70599 Stuttgart, Email: burghof@uni-hohenheim.de.

** Nazmie Sabani, University of Hohenheim, Department of Banking and Finance, 70599 Stuttgart, Email: nazmie.sabani@uni-hohenheim.de.

*** Corresponding author Patrick Jaquart, Karlsruhe Institute of Technology, Institute of Information Systems and Marketing, 76133 Karlsruhe, Email: patrick.jaquart@kit.edu.

more important last year as developments surrounding the Covid-19 pandemic prompted a large influx of new private investors. All of this is accompanied by an ever-increasing consciousness of sustainability. To examine the impact of these changes, the conference chairs invited academics and practitioners to participate and discuss empirical and theoretical research focusing on retail investor products and services, new trends in the behavior of private customers, investors' decision-making, investor protection schemes and market microstructure.

In addition to the main conference, PhD students were invited to present and discuss their work within a doctoral consortium, which was supervised by experienced researchers.

In total, the organizers of the conference received more than 50 submissions from 17 countries for the main conference and the doctoral consortium. This reflects a substantial increase in comparison to the previous conferences and highlights the continuing interest of researchers to present and discuss their results at ERIC. Based on the double-blinded review process, only the best submissions were admitted to the conference and included in the program. As a result, many high quality papers did not make it into the conference. Eventually, the final program of the main conference comprised 14 presentations, while 7 papers written by PhD students were selected for presentation at the doctoral consortium.

The keynote speech was held by Prof. Dr. Zacharias Sautner (Frankfurt School of Finance & Management) and addressed the relation between climate change and financial markets. Prof. Sautner's research focuses on securities trading, asset pricing and especially sustainable finance have been published in various journals such as The Journal of Finance, The Journal of Banking and Finance and The Review of Financial Studies.

II. Conference Presentations – State of the Research on Retail Investor Behavior, Regulation and Financial Market Innovation

This section provides a comprehensive overview of the conference's contributions in a chronological order. The content of the summaries is partially derived from the respective paper abstracts[2].

[2] Articles and further information are available on the ERIC Website www.retailinvestmentconference.org.

1. Session: Investment Decisions and Household Finance

The main conference started with the topic area of investment decisions and household finance. Ellapulli Vasudevan (ESCP Business School) opened the first session with his presentation "Familiarity breeds short-termism". In his paper, *Vasudevan* (2019) shows that investors shorten the holding period of stocks for which they repeatedly execute round trip trades by an average of 11 %. He further indicates that this observation is related to reinforcement learning. This implies, in turn, that investors shorten their holding period in particular if their last round trip experience was that they would have had a higher return if they had sold earlier.

The second contribution in investment decisions and household finance was "Human capital risk and portfolio choices: evidence from university admission discontinuities" presented by Philippe d'Astous (HEC Montréal). Together with Stephen H. Shore (Robinson College of Business) he analyzed the investment behavior of students in Denmark depending on their chosen university program and subsequent earnings processes. They show that the higher the university program influences future earnings and subsequently the chosen investment risk level. I.e. the higher the volatility of income, the less risky assets students hold.

The last presentation in this research area was held by William J. Bazley (University of Kansas), which presented his work around the topic "Mental health, mindfulness and financial decisions". Co-authors are Carina Cuculiza (University of Miami) and Kevin Pisciotta (University of Kansas). They investigate whether meditation as a form of mindfulness has an impact on financial decision-making. Interestingly, the authors find that people who engage in mindfulness are more impatient and ultimately experience worse performances in their portfolios.

2. Session: Behavioral Finance

The second session focused on the topic behavioral finance and started with the presentation of Jan Müller-Dethard (University of Mannheim). He presented "Can Agents Add and Subtract When Forming Beliefs?", a joint research paper with Pascal Kieren (University of Mannheim) and Martin Weber (University of Mannheim) and Markus Glaser (Ludwig-Maximilians-University of Munich). In their study, *Kieren* et al. (2021) analyze how individuals incorporate different informational signals. In a laboratory experiment, they find that individuals incorporate signals differently depending on the signal pattern. Whenever a sequence of same-directional signals (good or bad) is interrupted by an opposite-directional signal, individuals overreact to these signals. However, for alternating signal patterns individuals do now exhibit the same overreaction towards new signals. Putting the lab into the field, *Kieren* et al. (2021) also find evidence for these patterns in the stock market with regards to stock return reactions to announcements.

Exploring the effect of textual complexity on attention and market outcomes, Tarik Umar (Rice University) presented his paper “Complexity Aversion when Seeking Alpha”. In a field experiment in partnership with the investment platform Seeking Alpha, *Umar* (2021) randomly assigns different titles for news articles, varying in their complexity, to investors. He identifies complexity aversion amongst investors, namely that investors are less likely to read articles with more complex titles. This effect is more pronounced for less sophisticated investors and in times of lower stock uncertainty.

The behavioral finance session concluded with the presentation of Qiguang Wang (University of California), who presented “Disagreement about Public Information Quality and Informational Price Efficiency”, a paper co-authored with Chong Huang (University of California) and Radhika Lunawat (Hongkong Baptist University). In their paper, *Huang* et al. (2021) study how disagreement between investors about the public information quality affects market efficiency. They find that disagreement between investors leads to an underreaction of prices to public news and excessive trading upon the arrival of news that is not associated with price convergence. Thereby, the period leading up to announcements is characterized by reduced trading volume and price efficiency.

3. *Session: Fintech and Sustainable Finance*

The third session, which initiated the second day of the ERIC main conference, started with the presentation of Robin Döttling (Erasmus University Rotterdam). In his paper “Sustainability Preferences Under Stress: Evidence from Mutual Fund Flows During COVID-19”, co-authored with Sehoon Kim (University of Florida), he investigates the effect of economic distress on sustainability preferences of retail investors. *Döttling* and *Kim* (2021) analyze mutual fund flows and find that during the Covid-19 pandemic, funds with high ESG ratings experienced a sharper decline in retail flows compared to institutional flows. *Döttling* and *Kim* (2021) furthermore find that this decline in retail fund flows is especially pronounced in countries that were hit harder by the pandemic. During the reopening period, they identify a rebound in fund flows. Concluding, *Döttling* et al. (2021) present evidence that funds with high ESG ratings exhibit characteristics of luxury goods.

The last contribution in session three was “FinTech Platforms and Mutual Fund Distribution” by Claire Yurong Hong (Shanghai Jiao Tong University), Xiaomeng Lu (Shanghai Jiao Tong University) and Jun Pan (Shanghai Jiao Tong

University). In her presentation, Xiaomeng Lu elaborated on the effect of the appearance of Fintech platforms. In their empirical study, *Hong* et al. (2021) find that since Chinese Fintech platforms were initially allowed to sell mutual funds, more funds flowed into top-performing funds. They find that the reason for this increased fund flow performance sensitivity is the salient display of past return information, while ruling out the channels transaction cost, investor composition shift, endogenous funds entry and improving market conditions.

4. Session: Retail Investors

The fourth session included two papers: "Inflation and Investors' Behavior: Evidence from the German Hyperinflation" by Fabio Braggion (Tilburg University), Felix von Meyerinck (University of St. Gallen) and Nic Schaub (Otto Beisheim School of Management) and "What is your Desire? Retail Investor Preferences in Structured Products" by Rainer Baule (University of Hagen) and Patrick Münchhalfen (University of Hagen).

The first one, "Inflation and Investors' Behavior: Evidence from the German Hyperinflation", was presented by Felix von Meyerinck. In their empirical study, *Braggion* et al. (2021) examine how investors respond to expected inflation. They analyze a unique dataset from the German hyperinflation between 1920 and 1924 and find that investors tend to sell stocks in times of higher expected inflation. This trend is more pronounced among less experienced investors. The findings of *Braggion* et al. (2021) are in line with the money illusion hypothesis.

The second paper, "What is your Desire? Retail Investor Preferences in Structured Products ", was presented by Rainer Baule and examines what factors influence retail investors trading decisions regarding structured products. In a choice-based conjoint analysis, Research participants face two reduced key information documents with varying attributes and choose the more attractive product. *Baule* et al. (2021) find that most important product attributes for the investor decision-making are the costs and structure of the products, while the issuer and risk indicator of the product are less important.

5. Session: Mutual Fund Management and Asset Pricing

The fifth and last session of the conference focused on mutual fund management and asset pricing and was opened by Philipp Schuster (University of Stuttgart) who presented "Expected Bond Liqudity", a joint work with Michael Reichenbacher (Karlsruhe Institute of Technology) and Marliese Uhrig-Homburg (Karlsruhe Institute of Technology). In their work, *Reichenbacher* et al. (2021) present a new ensemble approach for forecasting the liquidity of individual bonds. They find that their prediction model outperforms the current state-of-the-art models in the financial literature. Furthermore, they provide evidence that investors expect a deterioration in liquidity in low performing corporate bond funds.

The second contribution in the final session was “Leveling the playing field? The effect of disclosing fund manager activeness to individual investors” by Dominik Scheld (University of Marburg), Oscar Stolper (University of Marburg) and Andreas Walter (University of Giessen). Oscar Stolper presented the paper assessing the compulsion of several major U.S. fund companies to disclose fund managers’ activities to investors. *Scheld* et al. (2021) identify strong positive fund inflows right after the active share is disclosed that are not dependent on the level of the active share. Therefore, Stolper et al. attribute the investor reaction to media attention rather than to rational evaluation of the new information available.

The presentation of Yuehua Tang (University of Florida) concluded the last conference session. He presented “Peer versus Pure Benchmarks in the Compensation of Mutual Fund Managers”, a joint work with Richard Evans (University of Virginia), Juan-Pedro Gómez (IE University) and Linlin Ma (Peking University). In their Paper, *Evans* et al. (2021) analyze the implications of the benchmark type in the contracts of mutual fund managers. They find that fund managers with a peer benchmark are more active and outperform managers with a pure benchmark. Furthermore, funds managed by managers with a peer benchmark also charge higher advisory fees. Finally, they find that investors who invest into funds with a peer benchmark tend to be more sophisticated.

III. Keynote Speech

The ERIC 2021 keynote speech was given by Zacharias Sautner (Frankfurt School of Finance & Management) and addressed the relation between climate change and financial markets.

Zacharias Sautner highlighted that 100 firms account for 71 % of global emissions and that huge capital reallocations are necessary to meet global climate goals. This creates new climate-related market risks that are likely to have a significant impact on asset values. This can be divided into regulatory/transition risks (e. g., restrictions to use fossil energy sources) and physical risks (e. g., extreme weather events). Sautner further elaborated that these climate-related risks are difficult to price and to hedge against.

Krueger et al. (2020) examine the importance of climate risks for institutional investors and find that climate risks adversely affect asset values. Thereby, most investors expect risks (especially regulatory risks) to materialize short-term. The main motivation for institutional investors to incorporate climate risks are reputation protection, ethical obligations, legal obligation and desirable portfolio effects. Institutional investors tackle these climate-related risks by reducing their carbon footprint, analyzing stranded asset risks, general portfolio diversification and integration of ESG ratings into their investment decisions. *Krueger* et al. (2020) find that investors with longer investment horizons and investors who view climate risks as more material are more likely to incorporate climate risks. Analyzing shareholder engagement on climate, they find that climate risk concerned investors hold discussion with company managements regarding the implications of climate risks and propose specific actions on climate-related issues. Institutional investors perceive stranded asset risks especially high for coal and oil producing companies.

Elaborating on the effect of climate risks on stocks, Zacharias Sautner introduced the study of *Bolton* and *Kacperczyk* (2021), who identify a carbon risk premium for stocks of firms with higher carbon dioxide emissions. Sautner also presented the study of *Ilhan* et al. (2020), who analyze the importance of carbon tail risks. Climate change imposes large risks on carbon intensive companies. *Ilhan* et al. (2020) find that investors hedge against tail risks for firms with high carbon dioxide emissions on the option market. These downside-hedging options got cheaper after the United States presidential election of climate sceptic Donald Trump.

According to Sautner, the quantification of climate change exposure is challenging, since the effects of climate change are uncertain and there are heterogeneous effects across firms. Therefore, *Sautner* et al. (2020), introduce a method to identify firm-level climate change exposure from earnings calls using machine learning. They find that the exposure to climate change has increased sharply over time (including physical risks). However, during the Covid-19 pandemic, the discussion of climate risks has decreased.

Zacharias Sautner concluded his keynote by addressing the disclosure of climate risk. He presented the study of *Ilhan* et al. (2021), who find that the demand of institutional investors for climate risk disclosures is affected by climate-specific disclosure costs and benefits. Climate related disclosures are better, if the ownership is more climate-conscious.

IV. Doctoral Consortium

The doctoral consortium presentations addressed various aspects of retail investor behavior, asset pricing and the effects of regulatory changes. The participants comprising the doctoral students and the professors Ryan Riordan (Queen's University), Christof Weinhardt (Karlsruhe Institute of Technology) and Hans-Peter Burghof (University of Hohenheim) engaged in lively discussions on the research topics presented at the conference. Thereby, the students received valuable input on improving their scientific work. The two most outstanding contributions were honored with the Best Paper Awards, which were sponsored by "Sparkassen Finanzgruppe Wissenschaftsfoerderung", an initiative of the German Savings Bank Finance Group. The best paper by Emirhan Ilhan (Frankfurt School of Finance & Management) was "Sea Level Rise and Portfolio Choice". *Ilhan* (2021) analyzes the portfolio choices of households depending on their geographical location. According to his results, houseowners with exposure to sea level rise are more likely to avoid risky assets and investments into stocks. *Ilhan* (2021) further validates his results by finding that differences in risk preferences as well as endogenous location decisions of homeowners cannot explain the observed effect. He also finds that the enactment of state climate change adaptation plans reduces the risks of sea level rise and ultimately leads homeowners exposed to these risks to increase their equity holdings and invest more riskily.

V. Conclusion and Acknowledgements

The broad range of papers presented at the 6th European Retail Investment Conference highlighted the growing importance of in-depth analyses of retail investor behavior, products and financial market innovations for both academia and financial institutions. Although retail investors are still subject to biases triggered by irrational behavior, the results of this year's conference also illustrate that retail investors can improve their investment decisions through the targeted use of technology and regulatory buttresses. Both the scientific community and the financial industry should make efforts to limit retail investor biases through innovative solution designs. In the wake of numerous financial innovations in recent years, this is especially true for robo-advisors, machine learning and cryptocurrencies. The goal should be to provide retail investors with a regulatory and technologically advanced foundation for future investment decisions.

The 6th European Retail Investment Conference has managed to substantially increase the already high international interest among leading researchers and financial practitioners for the conference. Given this ongoing success, ERIC has established itself as one of the leading scientific finance conferences for retail investor topics in Europe. The high-quality presentations and the intense and fruitful discussions at the conference greatly contributed to new insights for all conference participants.

The survey responses and the feedback from the conference participants confirm this impression and show a very high satisfaction regarding the presented topics and the conference organization. The 7th European Retail Investment Conference will prospectively be held in 2023.

Finally, on behalf of the conference chairs and the organization committee of the 6th European Retail Investment Conference, we would like to thank the conference partners and sponsors, first and foremost "Boerse Stuttgart" and "Allianz". Their financial and logistical support shows their dedication to both scientific progress and the understanding of the needs of retail investors. Again, our thanks also go to the "Sparkassen Finanzgruppe Wissenschaftsfoerderung", an initiative of the German Savings Bank Finance Group, for sponsoring the doctoral consortium best paper awards and Stuttgart Financial as a partner in many organizational endeavors. Furthermore, we would like to thank the members of the program committee and all reviewers for their evaluation of the submissions and the valuable and constructive feedback provided to the authors.

References

Baule, R./*Muenchhalfen*, P. (2021): What is your desire? Retail investor preferences in structured products. Review of Behavioral Finance.

Bolton, P./*Kacperczyk*, M. (2021): Do investors care about carbon risk? Journal of Financial Economics.

Braggion, F./*von Meyerinck*, F./*Schaub*, N. (2021): Inflation and Investors' Behavior: Evidence from the German Hyperinflation. Working Paper.

Döttling, R./*Kim*, S. (2021): Sustainability preferences under stress: Evidence from mutual fund flows during COVID-19. Working Paper.

Evans, R. B./*Gomez*, J. P./*Ma*, L./*Tang*, Y. (2021): Peer versus pure benchmarks in the compensation of mutual fund managers. Working Paper. *Krueger*, P./*Sautner*, Z./*Starks*, L. T. (2020): The importance of climate risks for institutional investors. The Review of Financial Studies, 33(3), 1067 – 1111.

Hong, C. Y./*Lu*, X./*Pan*, J. (2019): FinTech Platforms and Mutual Fund Distribution. Working Paper.

Huang, C./*Lunawat*, R./*Wang*, Q. (2021): Disagreement about public information quality and informational price efficiency. Working Paper.

Ilhan, E./*Krueger*, P./*Sautner*, Z./*Starks*, L. T. (2021): Climate risk disclosure and institutional investors. Working Paper.

Ilhan, E./*Sautner*, Z./*Vilkov*, G. (2021): Carbon tail risk. The Review of Financial Studies, 34(3), 1540 – 1571.

Kieren, P./*Müller-Dethard*, J./*Weber*, M. (2021): Can Agents Add and Subtract When Forming Beliefs?, Working Paper.

Reichenbacher, M./*Schuster*, P./*Uhrig-Homburg*, M. (2021): Expected Bond Liquidity. Working Paper.

Sautner, Z./*van Lent*, L./*Vilkov*, G./*Zhang*, R. (2020): Firm-level climate change exposure. Working Paper.

Scheld, D./*Stolper*, O./*Walter*, A. (2021): Leveling the playing field? The effect of disclosing fund manager activeness to individual investors. Working Paper.

Umar, T. (2021): Complexity aversion when seeking alpha. Working Paper.