Investor Experience and Attention:

The Effect of Financial Shocks on Individual Trading Decisions

Paige Ouimet
University of North Carolina at Chapel Hill

Geoffrey Tate
University of North Carolina at Chapel Hill and NBER

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Abstract

Using unique data on employee ownership plans sponsored by U.S. public companies, we estimate the effects of the 2008 financial crisis on individual investors' participation and trading decisions. Consistent with a decreased willingness to take risk, we observe an increase in the average propensity to exercise employee stock options following the crisis, controlling for grant timing and moneyness in addition to time-invariant firm and employee characteristics. However, the results are concentrated among employees with limited experience in option plans prior to the pre-crisis run-up in equity prices. Moreover, we find that low-experience employees also increase their participation in employee stock purchase plans (ESPPs) following the shock. Conditional on initiating participation in ESPPs, we find that they are disproportionally likely to sell the acquired shares both immediately and within the first year of ownership. Since declining to participate in an ESPP amounts to leaving money on the table, our results suggest a new wrinkle in our understanding of how investors' personal return experiences interact with risk preferences. While negative shocks appear to diminish investors' appetites for risk, they also mitigate investor inattention. Thus, at least along certain dimensions, they can induce investors to make decisions that are closer to the optimum.

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