

# Hard to say goodbye to yesterday: war memories, patriotism, and individual investors' investment preferences

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# Summary

- The residents of the treatment cities (have a historical battle) are more likely to own Chinese military stocks than the residents of the control cities.
- The effect is stronger for
  - investors residing in cities that experienced more intensive military battles
  - for older investors who are affected by the war memories to a greater extent
  - for those residing in cities with more media exposure about the war memories.
- Interpretations:
  - War memories for post-war generations who never experience the war affect their preference
  - They hold publicly traded Chinese military stocks as a way to show their patriotism and support for the modernization of China's military forces.

# Overall Comments

- Important question:
  - What determines individual investment behaviour?
  - One answer in the literature: personal experience (Malmendier and Nagel 2011 )
  - Push the literature further: intergenerational transmission of memory and experience
- Data: A large broker house in China
  - Full transactions information during sample period
  - Able to study the holdings and performance
  - 48,000 individuals and 1.6 million individual-month

**Shanghai Composite Index:  
2010.1-2015.12**



# Sample selection

- Sample: those who open accounts between 2010-2012
  - These are all new investors, who are likely have low experience and subject to peer effects.
  - Who open accounts during the periods when the Shanghai index drop by 30%?
  - What is the performance of military stock between 2010-2012?
  - Migration: young people those who open after 2010 are more likely move around. How does this affect the interpretation?
- Outcome period: 2010.1-2015.1
  - June 2015 crash: maybe drop sample after June 2015.

# Interpretations

Results: the residents of the treatment cities are more likely to own Chinese military stocks than the residents of the control cities.

Interpretations:

- Informed trading
- Preference
  - Patriotism (+memory)
  - Familiarity bias/home bias
- Beliefs mistakes: wrong belief about future return
- Peer effects: new investors follow peers in the city, but this can not explain peers decisions

# Interpretations

- Informed trading: the higher military stock ownership in the portfolios of investors in the treatment cities reflects these investors' private information about the military stocks
- Results: all negative return
- Suggestion:
  - Also Look at long run return
  - Compare with control or lowest decile investor: rule out the whole market goes down

# Interpretations: Preference

- Direct experience: war experience for generation born before 1945
- Indirect: war memories for post-war generations
- Patriotism: holding Chinese military stocks as a way to show their patriotism and support for the modernization of China's military
- Lack of direct evidence:
  - Who get more transmission of memory?
  - Are investors have strong patriotic preference?
  - Are they show their patriotism through buying military stocks?



# Interpretations

- Preference:
- Preferred explanation: patriotism (+memory)
- Alternative explanation: familiarity bias/home bias
  - War battle might be correlated with military firm location
  - Knowledge of war make investors familiar with the military industry
  - Where is current military factory? Where are these listed military factory
- Suggestions:
  - Check city level proportion of Military industry GDP
  - Check locations of listed military firm

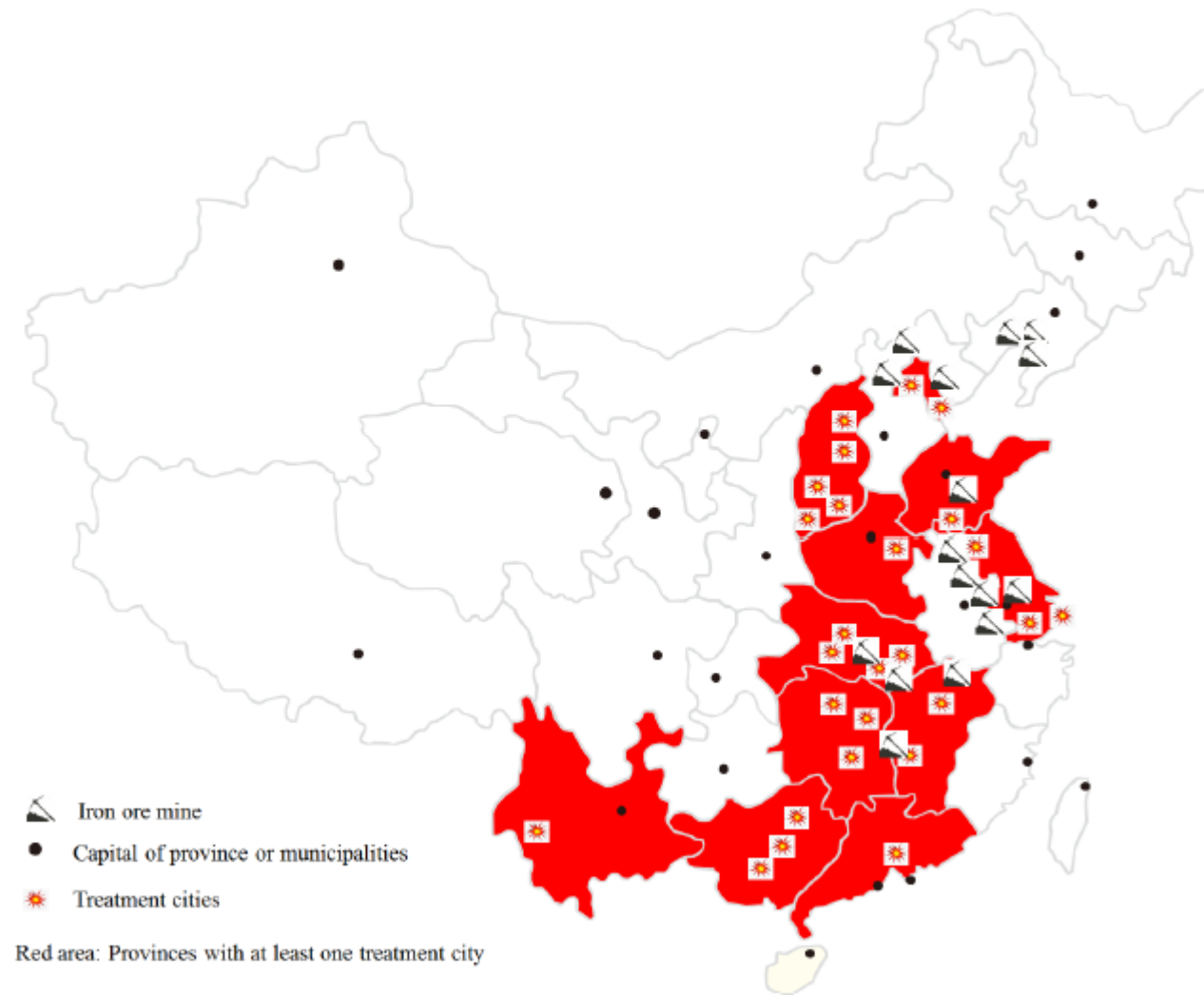
# Example

- Xcmg Construction Machinery Co.
- Listed in Shenzhen stock exchange
- Belongs to military industry
- Locate in the historical battle city Xuzhou, Jiangsu
- List of the top 500 enterprises in China

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## Appendix C.

### Figure 2 Location of battle-suffered cities (i.e. treatment cities)



# Specification

- Difficulty:
- No time variation: can only use cross sectional variation with panel data
- Any city level variation that is correlated with investment in military could be a big concern
  - Capitol of province
  - Location of military factory today
- Suggestions:
  - Check lower level variation: who get more transmission of war memory? Gender, age, occupation, any other information on the application form?
  - Local media and transaction of military stock: strengthen the results, more direct

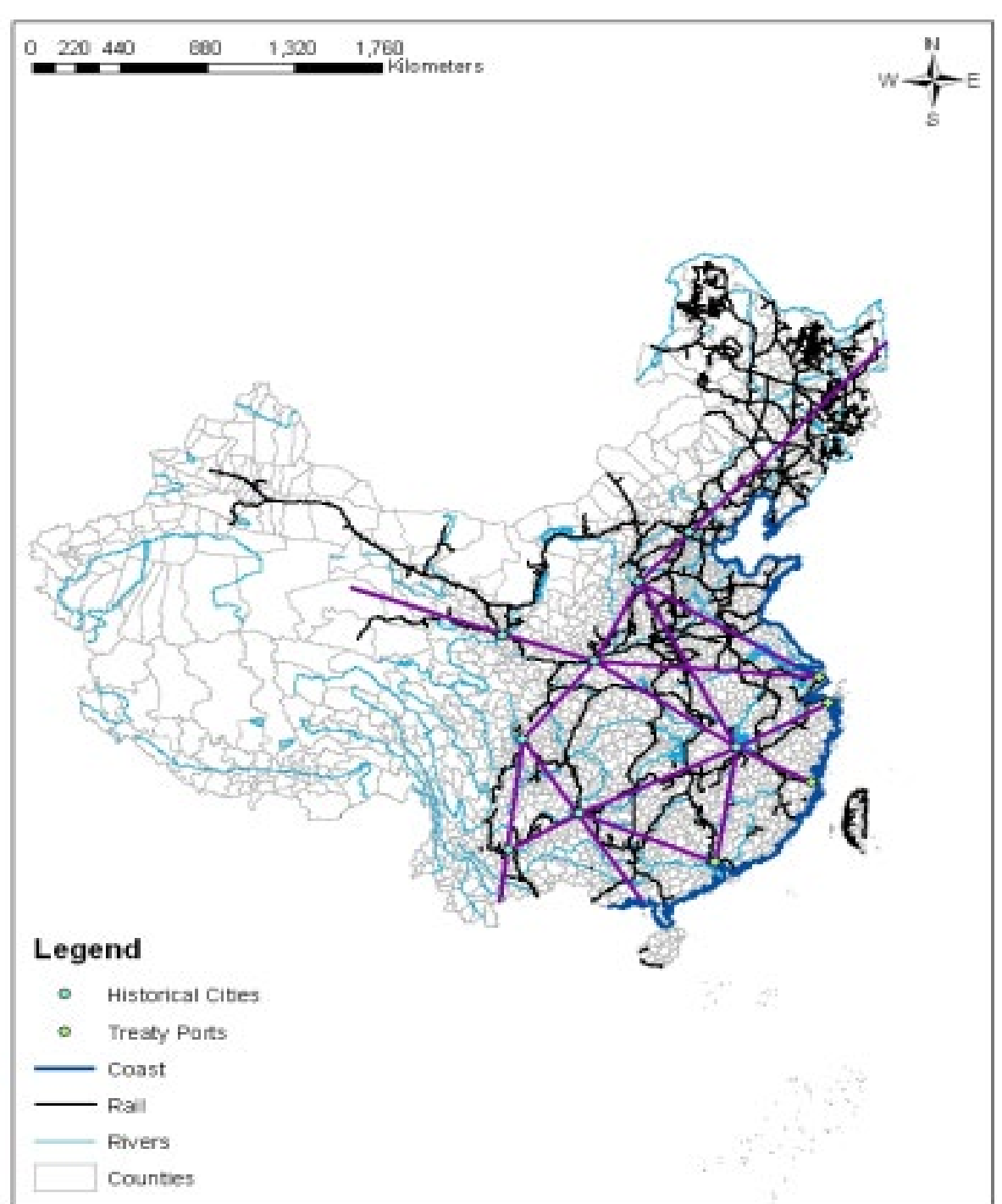
# Outcomes

- Main outcome: the monthly balance of investor  $j$ 's military-stock holding as a fraction of the investor's entire stock portfolio (a measure of stock)
- Outcome 1: transaction of military stock (a measure of flow)
  - Test 1: are investors in treatment cities more likely to buy military stocks, especially their first investment transaction?
  - Test 2: use 2015 crash, are investors in treatment cities less likely to sell military stocks?
- Outcome 2: dollar value of investment, controlling city level GDP, etc
- Outcome 3: placebo industry. If it is about war memory, it should not affect the holdings of less related industry, such as finance and agriculture

# IV

- Distance to nearest iron ore mines
  - It might not satisfy the exclusion restrictions.
  - History iron ore mines might be correlated with today's location of heavy and military industry.
- Questions: what determines the city with big battle?
- Potential IV:
  - Chinese military major deployment before July 1937
  - Distance to the nearest deployment

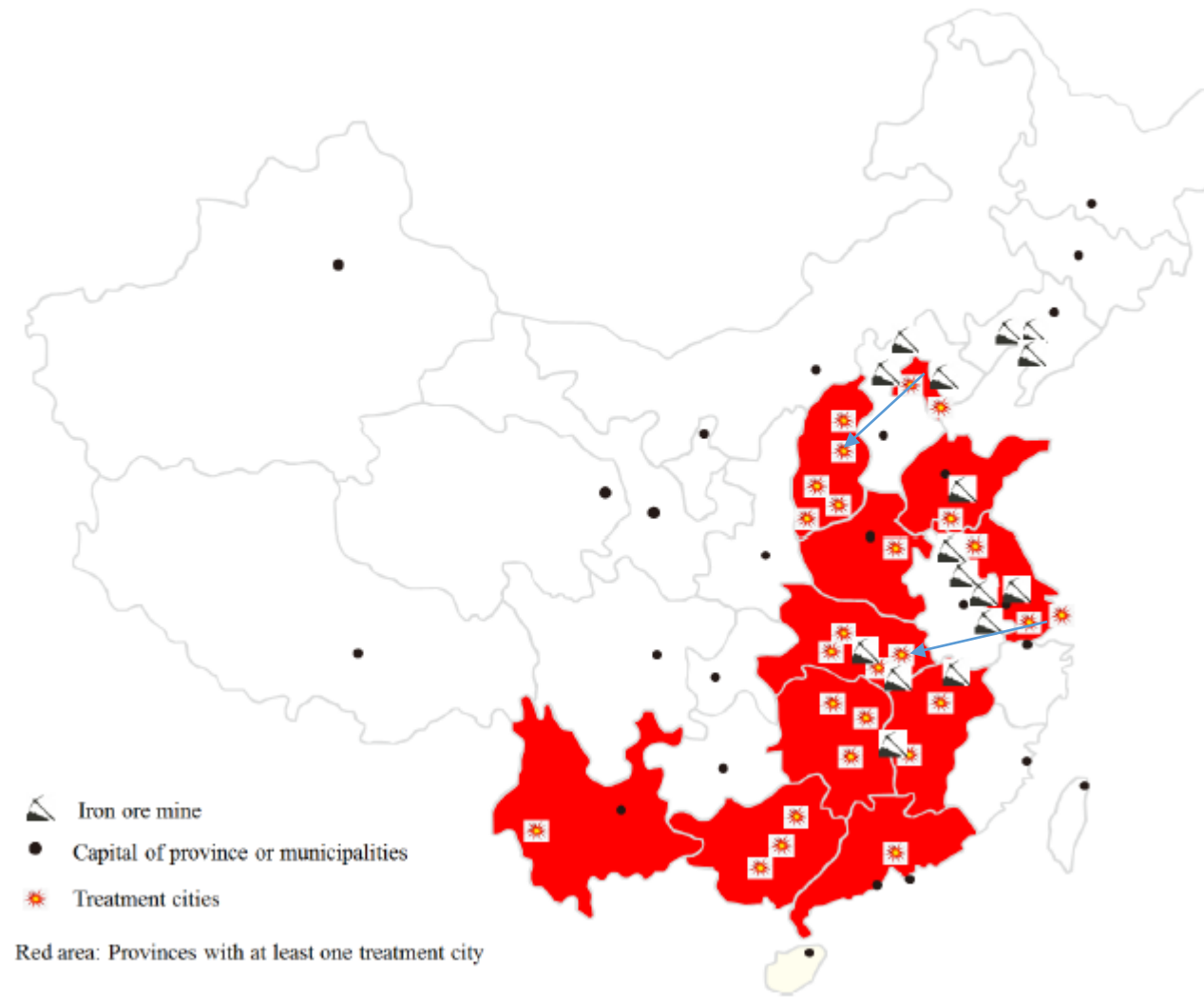
- What determines road building?
- In China, major road building after 1949 are based on connecting historical cities
- IV (Banerjee et al 2012)
  - Find historical cities in 1860
  - Use distance to the nearest straight line connecting two historical cities as IV



**Appendix C.****Figure 2 Location of battle-suffered cities (i.e. treatment cities)**

# Potential IV:

- Find Japanese occupied city and target city at the time
- IV: Distance to the straight line between Japanese occupied city to target city





# Minor comments

- Add common trend check in Event study
- List all control cities
- List all listed military stocks
- What is “JP holding ratio” in Table 3?
- Footnote 2 says sample is 1931-1945 while appendix B says the sample is only about 1937-1945.

Thank you