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
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
Appendix C.

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

- Iron ore mine
- Capital of province or municipalities
- Treatment cities

Red area: Provinces with at least one treatment city
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
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