Misperceived Returns to Active Investing

Ole-Andreas Elvik Næss, Centre for Applied Research at NHH (SNF)

Abstract

We conduct field experiments with retail investors recruited from a social trading platform. In our main experiment, we first elicit beliefs about the returns to active investing. We then generate exogenous variation in beliefs by providing treated respondents with information about index funds historically outperforming active funds. We find that treated respondents are 17.8 percentage points more likely to think that index funds will outperform active funds in the future. Four months after the experiment, we collect administrative data on portfolio allocations. We find that treated respondents increase the index fund share of their portfolio by 4.4 percentage points (37.7%) relative to the control group.