

The Positive Impact of COVID-19 on the Level of Investments of U.S. Retail Investors: Evidence from a Quantitative Online Survey and Ordered Probit Analysis

Authors : Corina E. Niculaescu, Ivan Sangiorgi, Adrian R. Bell

Abstract : The COVID-19 pandemic has been life-changing in many aspects of people's daily and social lives, but has it also changed attitudes towards investments? This paper explores the effect of the COVID-19 pandemic on retail investors' levels of investments in the U.S. during the first COVID-19 wave in summer 2020. This is an unprecedented health crisis, which could lead to changes in investment behavior, including irrational behavior in retail investors. As such, this study aims to inform policymakers of what happened to investment decisions during the COVID-19 pandemic so that they can protect retail investors during extreme events like a global health crisis. The study aims to answer two research questions. First, was the level of investments affected by the COVID-19 pandemic, and if so, why? Second, how were investments affected by retail investors' personal experience with COVID-19? The research analysis is based on primary survey data collected on the Amazon Mechanical Turk platform from a representative sample of U.S. respondents. Responses were collected between the 15th of July and 28th of August 2020 from 1,148 U.S. retail investors who hold mutual fund investments and a savings account. The research explores whether being affected by COVID-19, change in the level of savings, and risk capacity can explain the change in the level of investments by using regression analysis. The dependent variable is changed in investments measured as decrease, no change, and increase. For this reason, the methodology used is ordered probit regression models. The results show that retail investors in the U.S. increased their investments during the first wave of COVID-19, which is unexpected as investors are usually more cautious in crisis times. Moreover, the study finds that those who were affected personally by COVID-19 (e.g., tested positive) were more likely to increase their investments, which is irrational behavior and contradicts expectations. An increase in the level of savings and risk capacity was also associated with increased investments. Overall, the findings show that having personal experience with a health crisis can have an impact on one's investment decisions as well. Those findings are important for both retail investors and policymakers, especially now that online trading platforms have made trading easily accessible to everyone. There are risks and potential irrational behaviors associated with investment decisions during times of crisis, and it is important that retail investors are aware of them before making financial decisions.

Keywords : COVID-19, financial decision-making, health crisis retail investors, survey

Conference Title : ICBFM 2021 : International Conference on Behavioral Finance and Markets

Conference Location : Paris, France

Conference Dates : October 28-29, 2021