

Report Type

End of Award Report

Full Name

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Faculty/Department

CJBS

Project Title

• Individual Investors in the SME Micro Bond Market

Project Start Date

Oct 01, 2015

Project End Date

Oct 01, 2017

Project Abstract

In this paper, we examine how local bias, the predisposition of investors to invest in local firms is affected by the physical distances from other types of investors, specifically evangelical investors. We show that physical distances to these investors appears as, if not more important than the physical distance to the firm in influencing investment in a novel financial instrument, micro-bonds directly issued by the firm to its investors without a financial intermediary involved. The density of evangelical investors within a five km radius to the investor significantly influences the amount invested in the micro-bonds, the frequency of investment, and the likelihood of making repeat investments. We also identify a potential channel through which this influence operates – co-attendance at corporate information events.

Activities and Achievement

Empirical research in behavioural finance and consumer behavior has shown that investors are pre-disposed to investing in companies located close to where they live. This “local bias” has been shown in the literature to be a significant determinant of price formation. Typically, the literature has attributed the existence of local bias either to rational investor behavior resulting from access to superior information on local firms, or to emotional investor behavior resulting from a familiarity bias. However, there is very little evidence in the literature is how local bias actually forms. Most research has focused on physical distance from the firm as the primary determinant of local bias. we examine the incremental impact of physical distance from a particular type of investor – who we call evangelical investors - in influencing purchases of a novel financial instrument directly issued by a firm to local investors.

Dissemination

We now have a working paper that we are polishing and will be submitting to a journal soon.

Outputs

Major Difficulties and Any Other Issues

Getting data from the firm

Web Links

None

Additional Information

Declaration

Details of relevant outputs of this award have been submitted to the CERF Database and details of any ensuing outputs will be submitted in due course.

Signature - Main Award Holder

