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Dynamics and heterogeneity of subjective stock market expectations

Discussion

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Approach

- Show how people use previous year stock market information to form their year-ahead stock market expectations
- Build on Dominitz and Manski's (2011) intuition that there are mainly three types of expectation building behaviours
  - Random walk (RW)
  - Mean reversion (MR)
  - Persistence (P)
- Estimate a panel data model that allows for the three types of expectation building behaviours to differ in how they use past information

Findings

- Population may indeed be described by Dominitz and Manski's (2011) taxonomy or types: RW, MR and P
- Certain individual characteristics increase likelihood of belonging to one (or more) of the three types
    - Individual-specific heterogeneity
- Distribution of individuals across three types quite stable over time
    - Except after onset of GFC (2008)

Comment 1: the data

- ~2000 Dutch HH interviewed online roughly every two years (2004-2016)
- Matched with previous year stock market data (and other socio-demographic data)
- Table 1, Panel B: "on average, respondents experienced a one-year return of 3% prior to the interview."
- 8 probabilistic questions each with an answer ranging from 0 to 100

Comment 2: why not run a randomized experiment?

- Very interesting stylized facts provided but they remain associations/correlations
- What about causation?
- Three treatment groups and one control group:
  - P: information about past year stock market return
  - MR: information about past medium-term stock market return (hopefully some MR)
  - RW: information about long-run historical average return
  - Control group: no info provided
- How do treated participants revise their stock market expectations after being treated?