

Summary of *Irrelevance of Environmental, Social, and Governance Disclosure to Retail Investors*

2024.05.07

Yiming LI

1. What are the research questions?

- Do retail investors change their portfolio holdings based on ESG disclosures?

2. Why are the research questions interesting?

- Previous research indicates that ESG disclosures appeal to investors who prioritize these activities due to their preferences.
- These preferences are significant as they establish investor clientele and base effects, ultimately impacting firms' cost of capital and future operational choices.
- Limited empirical evidence on retail investors trading individual company stocks, particularly using an archival approach with data from Robinhood.

3. What is the paper's contribution?

- Previous studies focused on attracting dedicated institutional investors
- This study extends to show that retail investors overlook company ESG disclosures in their investment decisions
- Prior experiments indicate that subjects trade based on ESG disclosures
- This study demonstrates that real-world portfolio choices of retail investors are not influenced by ESG disclosures.
- Previous discussions assumed investor homogeneity in ESG disclosure proposals
- This study reveals that retail investors do not integrate existing disclosures like institutional investors do

4. What hypotheses are tested in the paper?

- H1: Retail investors do not alter their portfolio holdings in response to ESG disclosures

a) Do these hypotheses follow from and answer the research questions?

- Yes, it is focused on research question

b) Do these hypotheses follow from theory? Explain logic of the hypotheses.

- Yes, previous experiments have shown retail investors trading individual company stocks based on ESG disclosures may be influenced by social desirability bias, given the awareness of being observed.

5. Sample: comment on the appropriateness of the sample selection procedures.

- Select exclusive data from Robinhood and discuss potential biases

6. Comment on the appropriateness of variable definition and measurement.

- Five comprehensive dependent variables measure the reaction of retail investors

7. Comment on the appropriateness of the regress/predict model specification.

- Regression is well-suited.
- Seems not enough control variables

8. What difficulties arise in drawing inferences from the empirical work?

- The reaction of retail investors might last longer time than this paper investigated

9. **Describe at least one publishable and feasible extension of this research.**

- Comparing the investor reaction across different region and time period after the disclosure