Broadband Internet and the Stock Market Investments of Individual Investors

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We study the effects of broadband internet use on the investment decisions of individual investors. A public program in Norway provides plausibly exogenous variation in internet use. Our instrumental variables estimates show that internet use causes a substantial increase in stock market participation, driven primarily by increased fund ownership. Existing investors tilt their portfolios towards funds, thereby obtaining more diversified portfolios and higher Sharpe ratios, and do not increase their trading activity in stocks. Overall, access to high-speed internet seems to spur a “democratization of finance”, with individuals making investment decisions that are more in line with the advice from portfolio theory.