Discussion of "FIVE FACTS ABOUT BELIEFS AND PORTFOLIOS"

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  - Problem: survey expectations seem noisy, unrelated to reality, or very invariant
  - Can we still learn something from them? Presumably yes if they are correlated with actual behavior
  - How representative is the population? How high is that correlation? What is the regression's explanatory power?
  - How should we model expectations and beliefs to make them consistent with the empirical evidence?

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$$w^* = \frac{E[R_{t+1} - R_f]}{A\sigma_R^2} \Rightarrow \frac{\partial w^*}{\partial E[R_{t+1}]} = \frac{1}{A\sigma_R^2} = 0.00776 \Rightarrow A = 1/(0.00776 * 0.2^2) = 3221.6?$$

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- Reminds me of Brunnermeier and Nagel (2008)

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- Does it have to do with the Vanguard investment philosophy? People are in it for the long run
- Unlike in PSID or my own expectations stickiness, expectations are too volatile here (in the cross section)

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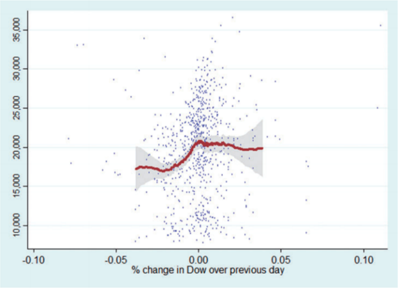
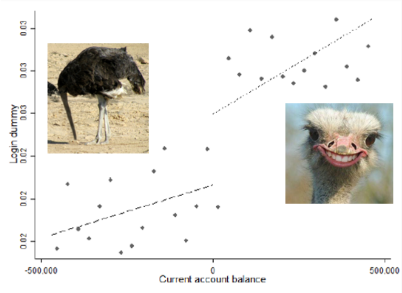
- Can we do a kitchen-sink regression to see what does (of the observed variables)?
- Individual FEs explain 50% of the variation, even though, in the cross section, they are too volatile
- Expectations are probably very correlated with past market performance (Greenwood and Shleifer, 2014; Barberis, Greenwood, Jin, and Shleifer, Barberis et al.) as well as own performance (Karlsson et al., 2009; Olafsson and Pagel, 2018)

What about biases in belief/expectation formation?

- Karlsson et al. (2009); Olafsson and Pagel (2018): investors/individuals are selectively inattentive

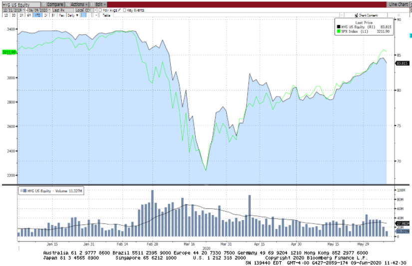


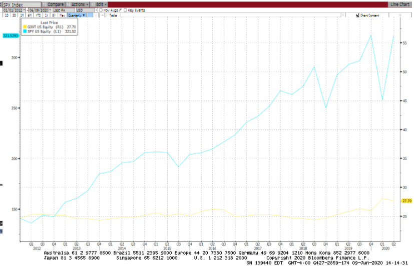


- Could that lead to misreporting and biases? I.e., I only want to think about (and respond to survey) after investments have been doing well/expectations were matched

What about Bonds?

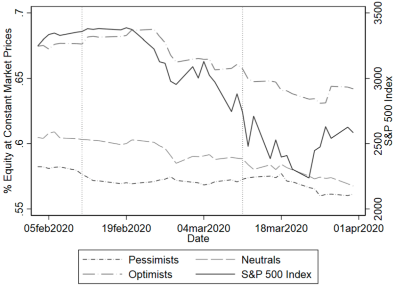
- Investors appear to know about the yield curve and zero coupon bonds... which is impressive!
- But bond funds can be as volatile as stocks? How are they treated?
- Does the Covid decease in portfolio shares explained by return chasing of Treasury bond funds?





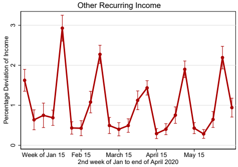
What about Bonds?

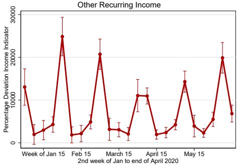
- We see a quite large decrease in the portfolio shares (net buys minus sells?) but not a full rebound
- But income should have not been affected, can we look at transfers into safe assets?

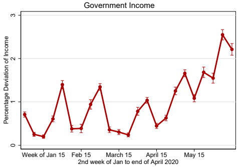


Nonprofit Fintech App Bank Account Data

- We see decreases in the amount and likelihood of payroll and other recurring income as well as increases in government income: pretty complete rebound

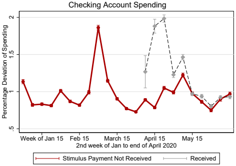


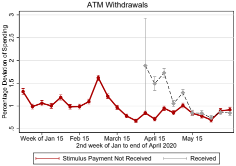


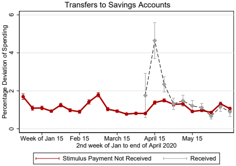


Spending and Saving During the Covid Pandemic

- All checking-account spending increased to stockpile needed home goods and also in anticipation of the inability to patronize retailers, then declined sharply, then increased for stimulus check recipients to pre-crisis levels but savings seems to increase too







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  - Flight to safety?

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* In terms of what is happening now: do we see transfers to save assets?
  - Is the stock market rebound reflected in trading?
  - Flight to safety?
* What can we learn about expectations modeling in macro-finance models? From my research (I think) we can learn that people are selectively (not rationally) inattentive, what is the main takeaway here?

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