# Political Divide and the Composition of Households' Equity Portfolios*

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**Abstract**

Using stock holdings data for local investment advisers that cater to individual clients, we compare the portfolio composition between different counties across the U.S. and relate it to the political differences between these counties. While political differences between counties have been increasing over the last 25 years, they seem to have little effect on differences in portfolio composition in the early part of our sample. However, since 2013 political differences exhibit a large and significant effect on differences in portfolio composition. Using the entry of a major conservative media network as a shock to county-level political views, we show that at least some of this effect likely represents a causal impact of political divisions on portfolio differences. Finally, we show that the effect of political division on differences in households' equity portfolio choices operates through diverging political views on social and environmental issues rather than through differences in economic expectations. Our study suggests that increasing political divisions could lead to diverging household portfolios across the U.S. as investors increasingly align their financial investment with their politically shaped values.

**Keywords:** Partisan bias, political preferences, individual investors, high-net-worth individuals

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# 1 Introduction

Increasing political polarization in the US is not only hindering political compromise on many important policy issues, but also affecting an ever larger number of choices, whether to wear a mask during the Covid pandemic, what food to consume, what car to drive, as well as where to live. Indeed, partisan location choices contribute to pronounced regional clustering of households with similar political views. Could regional differences in political preferences also lead to differences in the stocks that investors in different parts of the U.S. hold (or not hold) in their portfolios and thereby possibly to a divergence in the composition of households' equity portfolios across the U.S.?

To answer this question, we examine the relationship — over the past 25 years — between differences in equity portfolios held by households in different counties of the U.S. and differences in political preferences between counties. The geographic lens of our approach is motivated by the pronounced and increasing partisan segregation in the U.S. (Bishop (2008), Brown and Enos (2021)) as well as by the importance of local social interactions and local norms for financial decisions (Brown et al. (2008)).[1]

Political preferences could affect portfolio compositions through several channels. First, information, beliefs, and thus economic expectations could vary across areas with different political preferences. Indeed, Goldman et al. (2022) suggest that partisan media bias affects not only macroeconomic expectations, but also firm-level expectations. Second, given the increasing divergence in values and norms between supporters of the Democratic and Republican party (Bertrand and Kamenica (2018), Desmet and Wacziarg (2021)), differences in portfolio compositions could also emerge as investors increasingly consider non-financial dimensions, such as firms' social and environmental policies, when making investment decisions (see, e.g., Riedl and Smeets (2017), Pan et al. (2022)).

Given that political segregation is occurring at the local level, we aim to measure political

[1]Bishop (2008) argues that over several decades Americans have sorted themselves into extremely homogeneous communities. "We have been choosing the neighborhoods, news shows, and places of worship that most closely reflect our individual values. As people in like-minded communities grow more extreme and firm in their beliefs, we are left with a country of neighborhoods and towns that are so polarized ... that people don't know and can't understand those who live just a few miles away."

preferences and portfolio holdings at the county level. Specifically, our main measure of political preference in a given county is based on the presidential election voting results. To capture the difference in the political preferences between counties, we construct a bilateral county-pair measure of *Political Distance*, which is the sum of the absolute differences in the fractions of votes for the Republican, the Democratic, and the Independent presidential candidates. As Figure 1 shows, the average political distance between all possible U.S. county-pairs has been steadily increasing over the past 25 years, leading to a 40% higher political distance in 2020 compared to 1996.

In order to observe the investment decisions of households in a given county over the past 25 years, we utilize the direct equity holdings (from form 13f) of local wealth advisers that serve primarily individual clients.[2] We then average the portfolio weights across all local advisors in a county and form a bilateral county-pair measure *Portfolio Distance*, which is the sum of the absolute differences of two counties' portfolio weights across all investable out-of-state stocks.[3] Our full sample consists of 309 unique counties between 1997 and 2019 that represent about 55% of the U.S. population. As the number of wealth advisors and therefore the number of counties with non-missing data increases over time, we also consider a balanced sample of 94 relatively large counties, representing about 30% of the U.S. population. While the average portfolio distance, which lies between 0 (identical portfolios) and 2 (no portfolio overlap), was around 1.7 in 1997, we find that it has decreased by about 15% since, in line with the benefits of diversification as well as decreasing transactions costs.

We develop a simple framework where investors' political preferences determine their deviations from a benchmark portfolio. We show that in this case the portfolio distance between two counties is proportional to the political distance between them. This prediction is supported by our data. Controlling for time and county-pair fixed effects, we find that the further apart two counties are politically, the more their households' portfolio compositions

[2]While these holdings do not include the equity holdings of all households in a given county, they should be representative of local households' value-weighted preferences given that wealthy households are more likely to work with wealth advisors.

[3]To minimize the effect of investors' home bias on the bilateral portfolio distance, we exclude stocks of firms headquartered in the state of either of the two counties in a county pair.

differ.

Utilizing the long time-series of our data, we examine the evolution of the relation between county-pair political distances and their portfolio distances over time. Focusing on the balanced sample that is not affected by the entry and exit of counties, we find that the effect of political distance on portfolio distance is small and statistically insignificant before 2013, but has since then become increasingly larger and significant. This means that households' equity portfolios in counties with different political preferences have become increasingly different during the second term of President Obama's administration and President Trump's administration. The economic magnitude of this trend is significant. Our estimates suggest that a one-standard-deviation increase in the county-pair political distance offsets approximately 23% of the overall decrease in portfolio distance between 2013 and 2019. That is, while the portfolio compositions of different counties exhibit an overall trend of convergence in the past 25 years, the political divide has become an increasingly important counter force.

The finding of significant positive relation between political distance and portfolio distance since 2013 is robust to the inclusion of a large number of controls, such as county-pair differences in industry composition, income, education, and religious affiliations. It also holds when we construct bilateral portfolio differences simply as the fraction of stocks that are held in one county but not in the other as well as when we use annual Gallup survey data as opposed to presidential election results to measure political distance.

To strengthen the causal interpretation of the documented impact of political distance, we exploit the staggered entry of a large conservative TV network, Sinclair Broadcast Group, into different media markets during our sample period. Sinclair's entry has been shown to increase the voting share for the Republican party (Martin and Yurukoglu (2017), Levendusky (2022)). Using a difference-in-differences approach (Cengiz et al. (2019)), we confirm that Sinclair's entry into a given media market is not associated with any trend in local political preferences before the entry, yet it indeed increases the local Republican vote share in future presidential elections, thereby changing the political distance between a county with Sinclair entry and a county without. Importantly, we also find a consistent change in the portfolio

distance of treated county-pairs (whose political distance changed due to Sinclair's entry) relative to control county-pairs (no Sinclair entry) after Sinclair's entry, but not before.

Overall, our results suggest that political leanings shape investment decisions and that political differences between counties translate into portfolio differences between these counties. In the last part of the analysis, we analyze two possible mechanisms underlying the documented effects. On the one hand, households' political preferences may be correlated with or shape their perceived economic conditions or perceived regulatory risks for certain industries or firms, which can influence households' financial investment decisions (e.g., Meeuwis et al. (2022), Goldman et al. (2022)). We call this the economic expectations channel. On the other hand, political preferences may be correlated with or shape households' social and environmental values and preferences, which may influence their stock portfolios, as suggested by the rise of values-based investing (e.g., Eccles and Fisch (2022)). We call this the values channel.

Using Gallup survey data on high-income households' macroeconomic expectations, we find that differences in expectations across counties do contribute to differences in households' equity portfolios. Interestingly, this effect is also more pronounced in the later period of our sample. But differences in macroeconomic expectations do not appear to explain the bulk part of the political distance effect on portfolio distance.

To examine the values channel, we again use the Gallup survey data to confirm the widening gap between self-identified Democrats and Republicans in their attitudes towards environmental protection, labor protection, and gun control. We then document that relative to more Republican-leaning counties, more Democratic-leaning counties invest significantly less in the equity of firms associated with toxic emissions, concerns about labor standards, and the production of firearms, particularly in the later part of the sample period.

However, Democrats and Republicans could have different perceptions of regulatory risks related to these environmental and social issues, which may affect their demand for stocks with exposures to these regulatory risks differently. For example, compared to Republican voters Democratic voters seem to expect weaker environmental regulations during a Republican

presidency relative to a Democratic presidency. Therefore under the expectation channel, Democratic voters should hold relatively more stocks with environmental or social concerns during a Republican presidency compared to a Democratic presidency. However, we find that Democratic-leaning counties substantially *reduce* holdings of these stocks under the Trump administration relative to under the Obama administration. Consistent with the values but not expectation channel, Democratic-leaning investors seem to dislike firms that are environmentally or socially problematic even more under a Republican presidency during which those firms may pose more harm to the environment or the society in a regulation-lax environment.

Finally, using data for political campaign contributions of executives in S&P 1500 firms, we document that investors in more Republican-leaning counties increasingly invest less in firms with Democratic-leaning CEOs in comparison with those in more Democratic-leaning counties, consistent with the increasingly unfavorable views against the other party.

Our study is related to an emerging literature documenting the economic consequences of political divide and polarization. While previous studies have examined the recommendations or investment decisions of Democratic versus Republican analysts (Kempf and Tsoutsoura (2021)), portfolio managers (Hong and Kostovetsky (2012), Wintoki and Xi (2020)) or politicians (Aiken, Ellis, and Kang (2020)), our focus is on the relationship between increasing partisan segregation in the U.S. and similarities or differences in households' direct equity investments. The long time series of our sample allows us to study the evolution of this relationship and to identify an important shift around 2013.

Furthermore, while previous studies have highlighted that geographic differences in investment choices can arise due to home bias (Pool, Stoffman, and Yonker (2012)), differences in the religious make-up (Kumar, Page, and Spalt (2011)), or exposure to different social interactions (Brown et al. (2008); Pool, Stoffman, and Yonker (2015)) and media networks (Burt (2019)), we show that political divisions can also induce variation in households' portfolio composition. Greater divergence in portfolios between regions dominated by supporters of the Democratic and Republican party could increase differences in household income and wealth.

Politically induced differences in equity portfolios could reduce risk sharing and segment the U.S. equity markets by political lines and — given partisan segregation — geographical lines.

Finally, several recent papers show that Democratic-leaning and Republican-leaning investors take different amounts of equity risk due to different economic beliefs following the unexpected Trump win in the 2016 presidential election (Meeuwis et al. (2022)) or during the covid-19 pandemic (Cookson et al. (2020); Sheng et al. (2021)).[4] Our study highlights the role of the values channel in explaining portfolio composition differences between households of different political orientations. Our study thereby also provide support for the importance of investors' non-financial preferences in determining portfolio composition and asset demand (see, for example, Riedl and Smeets (2017), Hartzmark and Sussman (2019), Krueger, Sautner, and Starks (2020), Barber, Morse, and Yasuda (2021)).

# 2 Political Distance and Portfolio Distance: Hypotheses and Data

## 2.1 Hypothesis Development

In this section, we use a simple illustrative model to introduce the definitions of political distance and portfolio distance between two counties and to derive the relation between these two distances under a few assumptions.

We denote $d_A$ ($r_A$, $o_A \equiv 1-d_A-r_A$) the fraction of investors who support the Democratic (Republican, Independent/Other) candidate during the U.S. presidential elections in county $A$. The county's portfolio weight in stock $i$ is the weighted-average of the stock's portfolio weights across all the county's investors: $w_A^i = d_A w_d^i + r_A w_r^i + o_A w_o^i$, where $w_d^i$ ($w_r^i$, $w_o^i$) is the portfolio weight assigned to stock $i$ by Democratic (Republican, Independent) investor.

We define the political distance between two counties $A$ and $B$ as the sum of the absolute differences between the voter fractions supporting the Democratic, the Republican, and the

[4]Two recent studies document a negative impact of political divide within a mutual fund managers team on fund's performance (Vorsatz (2021), Evans et al. (2022)).

Independent candidates in the US presidential elections:

$$Political\ Distance_{AB} = \sum_{x=d,r,o} |x_A - x_B|. \tag{1}$$

Similarly, we define the portfolio distance between two counties $A$ and $B$ as the sum of the absolute differences between the stock portfolio weights:

$$Portfolio\ Distance_{AB} = \sum_{i=1}^{N_{AB}} |w_A^i - w_B^i|, \tag{2}$$

where $N_{AB}$ is the set of stocks held by investors in either county $A$ or $B$.

For a given stock $i$, the portfolio weight assigned by politically independent investors ($w_o^i$) can be viewed as a benchmark weight, free of partisan preferences. Then we assume that the portfolio weights of Democratic-leaning investors and Republican-leaning investors are proportional to this benchmark weight. That is, $w_d^i = \delta^i w_o^i$ and $w_r^i = \rho^i w_o^i$, where $\delta^i$ and $\rho^i$ reflect investors' preferences for stock $i$ due to their political leaning. $\delta^i > 1$ ($\rho^i > 1$) corresponds to overweighting and $0 \leq \delta^i < 1$ ($0 \leq \rho^i < 1$) corresponds to underweighting relative to the benchmark weight.[5]

If the fractions of investors supporting the independent political candidate are approximately the same in counties $A$ and $B$ ($|o_A - o_B| \approx 0$), then $Political\ Distance_{AB} \approx 2|d_A - d_B|$ and we can rewrite Equation (2) as

$$Portfolio\ Distance_{AB} = \frac{1}{2} Political\ Distance_{AB} \sum_{i=1}^{N_{AB}} w_o^i |\delta^i - \rho^i|. \tag{3}$$

For a given stock $i$, the partisan portfolio disagreement between Democrats and Republicans is captured by $|\delta^i - \rho^i|$. Equation (3) implies that *Portfolio Distance* is a product of *Political Distance* and the weighted-average of the partisan portfolio disagreement across all stocks in the two counties' household equity portfolios. If we regress *Portfolio Distance* on *Political Distance*, the regression coefficient would capture the weighted-average partisan

[5] We also assume that retail investors do not short-sell stocks to express their views.

portfolio disagreement. Thus, a significant regression coefficient estimate would suggest significant portfolio disagreement between Democrats and Republicans, and the magnitude of the coefficient estimate and its evolution over time would indicate the degree and the trend of partisan portfolio disagreement in our sample period.

## 2.2 Measuring Portfolio Distance

In order to observe the portfolio holdings of households across the U.S. over an extended period of time, we explore a novel approach. We first identify independent investment advisers who predominantly work with individual as opposed to institutional clients and whose operations are geographically limited. We then obtain their end-of-year equity holdings from advisers' 13f filings with the SEC. We aggregate across stock holdings of all advisers in a given county in a given year, and use the county-year-level data to compare portfolio compositions between different counties over time.

### 2.2.1 Local Investment Advisers

Since 2001, all U.S. investment advisers have to file Form ADV with the SEC, which contains information about the number of their individual and institutional clients, their total assets under management (AUM (ADV)), and their office locations (see Appendix B for further details). We collect data from Form ADV filings for all U.S. advisers directly from the SEC between 2001 and 2019. We identify advisers that primarily cater to individual clients by selecting advisers that predominantly serve individual clients. Specifically, we require that the fraction of individual clients in a given year is equal or exceeds 50% of the adviser's client base.[6] From 2012 onward, advisers also report the assets under management by type of client, which allows us to verify that the fraction of individual clients based on the number of clients and the fraction based on assets under management exhibit a high correlation of 91%.

To focus on advisers who serve local households, we exclude adviser-year observations

[6]We also retain up to two consecutive adviser-years that do not meet these criteria as long as the advisor is included in the sample immediately before and after those years.

when an adviser reports office locations in more than one MSA and retain about 53% of the observations which belong to local advisers that predominantly cater to households.

Finally, we combine the local adviser data with holdings data from Thomson Reuters Global Ownership database for 1997-2019.[7] The database includes data from 13f filings for those advisers whose assets under management contain more than $100 million in Section 13(f) exchange-traded securities, such as domestic stocks, ADRs, and exchange-traded funds (ETFs). We are able to identify holding records for about 17% of our sample of local advisers. Thus, the investment advisers in our sample serve predominantly local individual clients, but they are large enough to report their holdings with the SEC.

Since Section 13(f) filings exclude fixed income securities, mutual funds, as well as private securities, in a final step, we compare the total assets under management advisers report in Form ADV to the value of their reported 13f holdings. In order to ensure that the 13f holdings provide a meaningful description of an adviser's portfolio composition, we drop about 30% of observations, keeping those observations for which the value of an adviser's 13f holdings is between 50% and 110% of the total assets under management reported in Form ADV.[8]

Our final sample of local advisers with a focus on individual clients and with significant holdings data consists of 12,411 adviser-year observations between 1997 and 2019, representing 1,654 unique investment advisers in 309 counties. The summary statistics in Appendix Table C1 confirm that the investment advisers in our sample overwhelmingly cater to retail as opposed to institutional clients; the average (median) fraction of individual clients is 85% (93%) based on the number of clients and 81% (81%) based on the AUM. All variable definitions are provided in Appendix A. Given the local nature of their operations, their average (median) number of accounts is 1,576 (435) and the average (median) AUM is $1.6 ($0.41) billion; for comparison Edward Jones, a nationally operating investment adviser that focuses on individual clients but is not included in our sample, reports about 533,000 accounts and

[7] For years 1997-2000, we backfill Form ADV data from 2001 since adviser characteristics are time persistent.

[8] We use values for a given reporting year as well as the rolling 3-year median. In a few cases, we again retain up to two consecutive adviser-years that do not meet these criteria as long as the advisor is included in the sample immediately before and after those years. The value of 13f holdings can exceed the total AUM reported in Form ADV in case of large short positions. Given that such advisers are unlikely to serve individual clients, we exclude them from the sample.

an average AUM of $75 trillion between 2000 and 2019. Dividing the AUM by the number of accounts for each adviser-year, we obtain the average account size for a given adviser in a given year, with an average (median) value across our sample of $4.8 (1.0) million. For comparison, the average account size for the same time period reported by Edward Jones is $0.4 million, and is $0.5 million for individual investors with brokerage and retirement accounts at Vanguard between 2017 and 2020 (Giglio et al. (2021)).

Overall, a typical local investment adviser in our sample serves a relatively small number of wealthy individuals. The assets that these individuals hold or not hold should provide insights into their beliefs and preferences, which we assume are correlated with those of the broader population in the same area. Besides statistical reasons, prior literature in political science (e.g., Krassa (1990)) suggests that an individual's attention to and information about politics is influenced by the political environment in which the person is located. Differences in the average portfolio composition across advisors in a given county should therefore reflect differences in political views across counties if they matter for individuals' investment decisions.

### 2.2.2 Portfolio Composition

In order to compare the portfolio composition between different counties, we aggregate the equity holdings of all local advisors in the same county for all years between 1997 and 2019. As the number of local advisors in our data set increases over time, the number of counties with at least one local advisor increases as well (see Figure 2), yielding a "full" sample of 3,848 county-year observations related to 309 counties. In order to maintain comparability over time, in some of our analyses we rely on a "balanced sample" of 94 counties that consistently appear in the sample from 2001 to 2019.[9] On average, there are 3.2 (4.6) investment advisers per county in the full (balanced) sample and the median number of advisers is 2 in both samples.

To see whether our sample covers a meaningful portion of the U.S. counties where wealthy

[9]Most but not all 94 counties are consistently present between 1997 and 2000.

households may reside, we compare counties in our sample to the entire population of 3,137 U.S. counties in terms of population, income, and education level. We compute the average county population, income and fraction of residents with a college degree based on the data from the 1990, 2000, and 2010 census for all U.S. counties, 309 counties in the full sample and 94 counties in the balanced sample. The results are reported in Panel A of Table 1. The 309 counties in the full sample, despite being only 10% of all U.S. counties, account for 54.7% of the population, 61.5% of the income, and 60.4% of college graduates. The 94 counties in the balanced sample account for 29.1% of the population, 33.9% of the income, and 32.3% of college graduates. The counties in our samples are clearly of economic importance.

Similarly, the counties in our full and balanced sample represent meaningful geographic dispersion. Appendix Table C2 list the average number of counties per year for each U.S. state with at least one county-year in the full sample.

Panel B of Table 1 compares the voting behavior in the U.S. presidential elections in our samples' counties to the overall voting behavior of all the U.S. counties. In comparison to the population of the U.S. counties, counties in our sample tend to vote more Democratic. This is especially the case in the balanced sample.

In Panels A and B of Table 2, we provide summary statistics of households' advised financial portfolios at the county level for the full and balanced sample. In all cases, we first form adviser-level portfolio statistics which we then average across advisers to obtain equal-weighted county-level observations. Among the 13f securities, for which we have detailed holdings, we focus on equities, that is, domestic stocks and ADRs, in our comparison of the portfolio composition across counties and time. Equities make up the largest fraction of total assets under management, with approximately 60% of the portfolios being held in equities across both samples. ETFs which have been increasing over time from essentially 0 in 1997 to about 20% in 2019 on average comprise 8.9% (5.6%) of the portfolios in the full (balanced) sample. Other securities, such as mutual funds and fixed-income securities, make up about 32% of the portfolios. Note that the majority of these other holdings are not included in the 13f filings and therefore not observable to researchers.

In our analysis of equity portfolio choices at the county-level, we exclude stocks of firms with headquarters in the same state for two reasons. First, home bias in households' portfolio choices has been well documented (Coval and Moskowitz (1999), Karlsson and Nordén (2007)). Second, in-state equity holdings are often related to employee stock compensation. Since we are interested in examining the impact of local political preferences on portfolio choices, we want to mitigate the impact of factors that are not driven by political preferences. The majority of households' equity holdings are out-of-state equity holdings, which account for about 90% of the equity held by households in our sample, and about 55% of their total portfolio value.

Finally, since our main analysis of comparing equity portfolio compositions across counties occurs at the individual security level, Panels A and B of Table 2 also report the number of all individual equities and out-of-state equities as well as the average equity security weight per county and year. In the full (balanced) sample, the average county equity portfolio contains 116 (121) different securities and 95 (98) out-of-state securities. On average, the out-of-state equities represent between 0.92% and 1.41% of a county's out-of-state equity portfolio.

### 2.2.3 County-pair Portfolio Distance

To compare the portfolio composition between a pair of counties A and B, we construct the distance between their out-of-state equity portfolio weights according to Equation (2).

$$Portfolio\ Distance_{AB,t} = \sum_{k=1}^{N_{AB,t}} |w_{A,t}^k - w_{B,t}^k|,$$

where $N_{AB,t}$ is the set of out-of-state stocks held by households in either county $A$ or $B$. For example, when we compute the distance between Orange County, CA and El Paso County, CO, we exclude their holdings of stocks issued by firms headquartered in California and Colorado, and $N_{AB,t}$ includes all the out-of-stocks observed in the advised portfolios in Orange County, CA and El Paso County, CO. The weight of out-of-state stock $k$ in the portfolio of county $A$ ($B$) in year $t$ is $w_{A,t}^k$ ($w_{B,t}^k$). All weights are rescaled such that they add up to one.

Specifically, stock $k$'s weight in county $A$ is computed as a simple average (rescaled) weight across all the investment advisers headquartered in county $A$:

$$w_{A,t}^{k} = \frac{1}{I_{A,t}} \sum_{i=1}^{I_{A,t}} w_{A,t,i}^{k},$$

where $I_{A,t}$ is the number of investment advisers in county $A$ in year $t$ in our sample. By definition our measure of portfolio distance is bounded between 0 and 2.

To alleviate potential concerns that portfolios could be dominated by large stocks, for robustness purposes we employ an alternative distance measure defined as follows:

$$\textit{Portfolio Distance}_{AB,t}^{Alt} = 2 \cdot \frac{1}{N_{AB,t}} \sum_{k=1}^{N_{AB,t}} |\mathbb{1}_{A,t}^{k} - \mathbb{1}_{B,t}^{k}|,$$

where $\mathbb{1}_{A,t}^{k}$ ($\mathbb{1}_{B,t}^{k}$) is an indicator variable that equals 1 if stock $k$ is in the portfolio of county $A$ ($B$) in year $t$ and 0 otherwise, for all out-of-state stocks held by households in counties $A$ and $B$. In essence, the alternative portfolio distance measure is based on whether stocks are present in a given portfolio, while our main portfolio distance measure is based on stock weights. We rescale the $\textit{Portfolio Distance}^{Alt}$ measure such that it is bounded between 0 and 2.

Table 3 details the summary statistics for the two portfolio distance measures for the full and balanced samples, where the observations are the county-pair-year level. Figure 3 shows the evolution of the portfolio distances over the entire sample period from 1997 to 2019, for the two samples. We observe a declining trend in county-pair portfolio distances over time in both the full and balanced samples, suggesting convergence in households' equity portfolios across different geographic areas. For example, according to our *Portfolio Distance* measure the average county-pair distance drops from 1.65 to 1.35 (from 1.70 to 1.50) in the balanced (full) sample over the sample period, which is equivalent to an 18.2% (11.8%) decrease. The decline in the count-based portfolio distance measure ($\textit{Portfolio Distance}^{Alt}$) is more moderate, 9.0% (5.2%) in the balanced (full) sample.

### 2.3 Measuring County-pair Political Distance

For each county-pair A and B, we construct their political distance according to Equation (1):

$$Political\ Distance_{AB,t} = |d_{A,t} - d_{B,t}| + |r_{A,t} - r_{B,t}| + |o_{A,t} - o_{B,t}|.$$

To capture $d$, $r$, and $o$ in a county-year, we use the county-level voting shares for the Democratic, the Republican, and other candidates in presidential elections from 1996 to 2016. The voting data is from the MIT Election Lab. The voting outcomes reflect the political climate in a county, which should reflect local households' political preferences. Panel (a) and (b) of Figure 4 plot the time trend of the average *Political Distance* for county-pairs in the full sample and in the balanced sample, respectively.[10] Consistent with what has been documented in the political science literature (e.g., Boxell et al. (2017)) and similar to the country-wide results in Figure 1, we observe a clear upward trend in *Political Distance*, especially in more recent presidential election cycles.

Our assumption is that the distribution of political preferences among the households with advised equity portfolios is similar to that of the voters in the county. However, the households in our sample tend to be wealthier than an average household in a county. If wealthier households tend to lean towards one party (e.g., the Republican Party), then the political distance between the wealthier people in two counties could be smaller than that between all voters.

To assess the validity of our assumption with respect to using the voting data and for robustness purposes, we also use an alternative data source to gauge the local political climate in a county. The Gallup U.S. Daily surveys were introduced in 2008 and conduct high-frequency surveys on a large number of representative individuals across U.S. counties every year. The average number of respondents each year between 2008 and 2018 is more than 331,000. Each Gallup survey asks respondents about their political preferences: "*In politics, as of today, do you consider yourself a Republican, a Democrat, or an Independent?*" The

[10] Note that in the full sample, the political distance may not be identical within a presidential election cycle because the number of counties and thus county-pairs can vary from year to year.

Gallup surveys also have self-reported information about family income (in income brackets), which allows us to compare the distribution of political preferences between all respondents and high-income respondents.[11] We define respondents with family income above (below) the county median as high-income (low-income) individuals. Information about county-year median family income comes from the U.S. Census Bureau.

As reported in Panel B of Table 3, in the balanced sample, the political distance measures based on the voting data and that based on Gallup survey data (all respondents, *PD Gallup All*) have similar distributions. The political distance between high-income people in a county-pair (*PD Gallup High Income*) is actually slightly larger, rather than smaller, compared to that between all respondents. The three political distance measures are also highly correlated. The correlation between *Political Distance* based on the voting data and *PD Gallup All* based on Gallup (all respondents) in a three-year window around a presidential election year (the average political distance from the year before until the year after) is 0.90. If we use *PD Gallup High Income*, the political distance based on Gallup (high-income respondents), then the correlation becomes 0.81. These statistics suggest that the political distance measure based on the voting data is a reasonable proxy for the difference in (wealthy) households' political preferences across two counties.

## 3 The Effect of Political Distance on Portfolio Distance

In this section, we examine the relation between county-pair differences in political preferences, proxied by our political distance measure, and differences in the composition of households' equity portfolios, as captured by portfolio distance, and the evolution of the relation over time. We compare the role of differences in political preferences to the role of other potentially correlated economic forces that could affect differences in portfolio composition between counties, such as differences in income, education, industry composition, and religious affiliations. Finally, we identify a possibly causal effect of political differences using

[11] Although the Gallup Poll Social Series, which started in 2001, also provide information about respondents' political preferences and family income, they are conducted monthly with a much smaller number of respondents (about 1,000 individuals) and thus do not provide good representation at the county level.

a shock to local political ideology due to the entry of a conservative news network in local media markets.

### 3.1 Main Results

In our baseline specification, we relate the portfolio distance between counties $A$ and $B$ in year $t$ to the political distance between both counties as captured by the most recent Presidential election voting outcome before year $t$. Specifically, we estimate:

$$\begin{aligned} \textit{Portfolio Distance}_{AB,t} = a + b\textit{Political Distance}_{AB,t-1} \\ + c\,\textit{Year FE}_t + d\,\textit{County-Pair FE}_{AB} + e_{AB,t}. \end{aligned} \tag{4}$$

Year fixed effects are included to absorb time trends in both political and portfolio distances. County-pair fixed effects are included to absorb the effects of county-pair time-invariant factors on both distance measures. Standard errors are double clustered by each county in a county pair.

The results are reported in Table 4, Panel A. The results in columns (1) and (2) are estimates based on the full sample, and those in columns (3) and (4) are based on the balanced sample. The county-pair fixed effects in columns (2) and (4) absorb persistent cross-county differences, so that we capture the effect of time-varying political distance on portfolio distance. The estimated coefficients on *Political Distance* are positive and significant in all specifications, suggesting that county-pairs with a larger difference in political preferences tend to have a larger difference in households' equity portfolios. The economic magnitude is the largest in column (4), when we focus on the balanced sample and the time-varying component in political distance. In that specification, a one-standard-deviation increase in the county-pair political distance is associated with a 0.028 ($= 0.130 * 0.212$) increase (or 12% standard-deviation increase) in the county-pair equity portfolio distance, offsetting approximately 9% ($= 0.028/0.3$) of the overall decrease in the portfolio distance between 1997 and 2019.

To examine the time-series trend in the relation between political distances and portfolio

distances, we estimate the specification in column (3) yearly for each year between 1997 and 2019. For this exercise, we focus on the balanced sample to mitigate selection biases due to counties that drop out or come into our sample over time. We then plot the estimated coefficients on *Political Distance* over time in Figure 5. Visual inspection reveals a structural break around 2013: before 2013, the estimated impact of political distance on portfolio distance is small and generally statistically insignificant, suggesting a weak correlation between political and portfolio distances in the early years of our sample period. The estimated impact exhibits a clear jump in 2013 and becomes increasingly larger and statistically significant after 2013. The average coefficient estimate before 2013 is 0.005, while it is 0.198 at the end of our sample period in 2019, a 40-fold increase.

According to Equation (3), the overall pattern suggests that the partisan portfolio disagreement is small before 2013 and has since then become larger and larger during President Obama's second term and President Trump's term. Despite of the overall convergence in household equity portfolios across over time and the decreasing trend in portfolio distance (see Figure 3), the geographic polarization of political attitudes seems to have become an increasingly important force driving the divergence of households equity portfolio choices.

In Table 4, Panel B, we formally test the differential effect of political distance on portfolio distance in the earlier versus the later part of our sample period. We construct an indicator variable *Recent*, which equals one from 2013 onward and zero before. We then add an interaction term between this indicator and *Political Distance* to the baseline specification and estimate it using the balanced sample. The results are reported in columns (1) and (2) of Panel B. Consistent with the time trend in Figure 5, the positive correlation between portfolio distance and political distance is small in the early years but increases significantly in the later part of the sample period. In the most recent two presidential cycles, a one-standard-deviation increase in the county-pair political distance is associated with a 0.037 $(= (0.065 + 0.111) * 0.212)$ increase (or 16% standard-deviation increase) in the county-pair equity portfolio distance, offsetting approximately 23% $(= 0.037/0.16)$ of the overall decrease in the portfolio distance between 2013 and 2019.

Unlike *Portfolio Distance*, which varies by year, *Political Distance* is measured at the level of presidential election cycles. In columns (3) and (4), we collapse the observations to the election cycle level, by averaging *Portfolio Distance* within an election cycle and repeat the exercise. Standard errors are again double clustered by each county in a county-pair. Results are very similar to those in the first two columns.

## 3.2 Robustness

We examine the role of possibly omitted factors that could determine differences in portfolio composition and provide several robustness checks related to the measurement of portfolio and political distances. We focus on the specification that contrasts the impact of political distance in recent years to earlier years and therefore use the balanced sample for most of the robustness checks.

### 3.2.1 Omitted Variables

Our baseline empirical model controls for time fixed effects as well as all time-invariant county-pair characteristics. It is, however, possible that *Political Distance* is correlated with other time-varying differences between counties that affect portfolio differences.

In addition to the three demographic characteristics from Section 2.2.2, i.e., per-capita income, population, and education, we explore several county-pair variables that are particularly relevant in the context of portfolio composition and political preferences: *Geographic Distance*, *Industry Distance*, and *Religious Distance*. The geographic distance between two counties could capture differences in the relevant information sets, an effect that might have become less important over time, given increasing access to information online.[12] Similarly, differences in the industry composition might lead to differences in information or familiarity with different stocks. We construct *Industry Distance* at the county-pair level in the same way as we calculate portfolio and political distances, using vectors of industry-shares of local

[12]We collect data on the geographic distance between counties from the NBER's website, using the 2010 data for all years, downloaded from `https://www.nber.org/research/data/county-distance-database`.

employment.[13]. Finally, given how intertwined religion and partisan politics are in the U.S. and given the role religious beliefs for portfolio decisions (e.g., Shu et al. (2012) and Kumar et al. (2011)), we compare the religious composition between the counties in a county pair, using county-level fractions of Protestants, Catholics, Orthodox Christians, Mormons, Jews, Others, as well as non-religious individuals from the Association of Religion Data Archives (ARDA) for 1990, 2000, and 2010. Specifically, *Religious Distance* is constructed in same way as our other distance measures.[14] Table 3 reports summary statistics for *Geographic Distance*, *Industry Distance*, and *Religious Distance*.

In column (1) of Appendix Table C3, we explore the association between *Political Distance* and absolute differences in per-capita income, population, and education between the two counties in a county pair. While positive, the associations appear relatively weak overall. In column (2), we add *Geographic Distance*, *Industry Distance*, and *Religious Distance*. All three exhibit a significant positive relationship with *Political Distance*, and we observe a corresponding increase in the adjusted $R^2$. However, column (3) shows that county-pair fixed effects largely absorb these associations, with only the effect of *Religious Distance* remaining statistically significant.

In Table 5, we examine to which extent the inclusion of these additional controls alters the effect of *Political Distance* on *Portfolio Distance*. In all cases, we include county-pair fixed effects, and we interact all controls with *Recent*. Column (1) shows that controlling for absolute differences in per-capita income, population, and education has essentially no effect. In columns (2) through (5), we add *Geographic Distance*, *Industry Distance*, and *Religious Distance*. For none of the controls, we observe any differential impact on *Portfolio Distance* in recent years, and we observe only a very modest reduction in the recent effect of *Political Distance*.

Overall, our results suggest that while political distance is correlated with potentially

[13]We collect data on total employment by industry (2-digit NAICS) in each county-year from the Bureau of Economic Analysis.

[14]We assign data from 1990, 2000, and 2010 to the following ten years. We infer the fraction of the non-religious population as the difference between 100% and the sum of the fractions of the other religious groups reported by ARDA.

confounding factors such as differences in information sets or in religious beliefs, these confounding factors are largely absorbed by county-pair fixed effects and have only minimal impact on the effect of political distance on portfolio distance.

### 3.2.2 Alternative Measure of Political Distance

So far, we have used presidential voting data to characterize the geographic polarization of political views in the U.S. over time. One concern is that county-level voting results are an imperfect proxy for the political views of investors whose advised portfolio composition we observe. In Table 6, we therefore repeat our analysis using political distance measures based on the Gallup U.S. Daily survey data, which allows us to differentiate between respondents with different income levels. Consistent with the high correlations of 81 to 90% between our political distance measure based on voting data and alternative measures using Gallup survey responses from all or high-income respondents only (see Section 2.3 above), we find consistent results with respect to the impact of political differences on differences in portfolio composition, when using responses by all respondents in the Gallup surveys (column (1)) or those from high-income respondents only (column (2)). Interestingly, we find no significant association between portfolio distances and political distances based on responses by low-income respondents only (columns (3)), suggesting that the differentiation by income is meaningful and that the effect of political distance based on all voters is mainly driven by the political preferences of high income voters. Finally, in column (4) we again find that the effect of political distance is concentrated in the latter part of our sample period.

While these results suggest that our main political distance measure reflects the political preferences of those investors, who are more likely to employ a wealth advisor, one might wonder about the role of the advisors' political preferences. While we do not have data on advisors' political preferences, anecdotal evidence from conversations with several advisors suggest that advisors cater to the preferences of their clients. For example, one advisor told us that they observe very different demand for ESG products in different regional markets in the U.S., with differences seeming to align with differences in local political preferences.

### 3.2.3 Alternative Measure of Portfolio Distance

In Appendix Table C4, we show that our results are qualitatively unchanged when we use the alternative count-based measure of portfolio distance. This result implies that the diverging effect of political distance on portfolio distant is not due to changes in the market capitalization of any particular set of firms, but obtains when we compare portfolios between counties simply based on the out-of-state stocks that are included or excluded in each of the two portfolios.

## 3.3 Sinclair Entry as a Shock to Political Distance

It is, of course, impossible to control for all potential time-varying omitted variables. Therefore, to further strengthen the identification of the effect of political preferences on portfolio allocations, we explore a shock to the political attitudes in a county that we argue is largely unrelated to other economic determinants of portfolio choices. Specifically, we explore the staggered entry of the conservative TV network, Sinclair Broadcast Group, into different media markets during our sample period.

As of 2020, Sinclair is the second-largest television station operator in the U.S., with about 200 stations in close to 100 (out of 210) designated media markets (DMAs) covering approximately 40% of U.S. households. Sinclair's business model is to achieve economies of scale by acquiring television stations in a large number of DMAs and replacing the more costly coverage of local news with coverage of national news that is shared across DMAs. Importantly, in addition to the shift from local to national coverage, Martin and McCrain (2019) show that stations acquired by Sinclair shifted towards more right leaning slant as captured by textual analysis of TV transcripts. Similar to prior research about the entry of conservative FOX news (DellaVigna and Kaplan (2007), Martin and Yurukoglu (2017)), Miho (2020) and Levendusky (2022) show that Sinclair's entry seems also to shift political attitudes of the local population to the right, resulting in an increase in the local Republican vote share in the subsequent presidential elections.

We collect data on DMAs in which Sinclair owns and operates programs, and provides

sales services to stations from its annual reports for the period of 1996-2017. During this period, Sinclair's expansions were concentrated in an earlier period of 1997-1999 (19 new DMAs) and a later period of 2011-2017 (54 DMAs).

Sinclair's acquisitions are, of course, not random. One possible concern is that Sinclair targets more conservative DMAs, which may exhibit a different trend in the evolution of political preferences relative to DMAs without Sinclair's entry. We argue that this concern is mitigated in our setting for several reasons. First, Sinclair's expansion is achieved by a growth-by-acquisition strategy. As Mastrorocco and Ornaghi (2020) point out, the vast majority of Sinclair's acquisitions are acquisitions of other smaller broadcast companies, which usually operate in multiple DMAs. That is, Sinclair enters into new DMAs typically in bundles and it is therefore unlikely that Sinclair's entry is driven by the characteristics of any specific DMA in a bundle. Second, just like in any mergers and acquisitions (M&A) deals, the timing of Sinclair's acquisitions also depends on the sellers' decisions.[15] Overall, we argue that Sinclair's expansion strategy makes the timing and location choice of Sinclair's entry likely exogenous to a specific media market's conditions. Consistent with our argument, Martin and McCrain (2019) report that Sinclair's stations are not in markets with higher Republican vote shares.

Econometrically, the exogeneity of Sinclair's entry with respect to local political preferences implies that the parallel trend assumption should hold in a difference-in-differences (DiD) analysis, which we examine in Table 7, Panel A. The dependent variable *Republican Share* is the fraction of votes for the Republican candidate in a county in the most recent presidential election. We collect voting outcomes for each county in all presidential elections between 1988 and 2020. Since the elections occur in 4-year cycles, we aggregate Sinclair's entries into the same political cycles and conduct the analysis at the presidential election cycle level. *Treated* is a dummy variable that equals one (zero) for counties reside in DMAs

[15]For example, in 2011 Sinclair acquired eight stations in seven DMAs from Freedom Communications, which had to initiated the disinvestment in order to reduce its debt (https://www.prnewswire.com/news-releases/sinclair-broadcast-group-announces-agreement-to-purchase-freedom-communications-television-stations-133062738.html and https://tvnewscheck.com/uncategorized/article/sinclair-buying-freedom-for-385-million/).

with (without) Sinclair's entry between 1996 and 2017. For a given treated county, the event cycle 0 is the one containing the most recent presidential election after Sinclair's entry. For example, for counties with Sinclair's entry in years between 2000 and 2003, the presidential election in 2000 is event cycle 0, and the presidential election in 2004 is event cycle 1. *Post* is a dummy variable that equals one for event cycles 1-3, and equals zero for event cycles -2 to 0. In our balanced sample, 29 out of 94 counties are defined as treated. Following Cengiz et al. (2019), we stack all of the event-specific data to calculate an average treatment effect across all events. We include Event×County fixed effects and Event×Time fixed effects, a stringent stacked-by-event approach.

The results of the DiD analysis are reported in Table 7, Panel A. Column (1) shows a positive treatment effect of Sinclair's entry on treated counties' vote shares for the Republican presidential candidates relative to those of control counties. Column (2) reports the results of a dynamic DiD estimation. There is no significant difference in the trend of *Republican Share* between treated and control counties before Sinclair's entry, consistent with the parallel trend assumption. Following Sinclair's entry, treated counties experience a gradual but significant increase in *Republican Share* relative to control counties in the subsequent three presidential election cycles.

In columns (3) and (4), we further examine whether the treatment effect differs across pro-Republican counties and pro-Democratic counties before Sinclair's entry. A pro-Republican (pro-Democratic) county is a county with the Republican vote share greater (smaller) than the Democratic vote share in event cycle 0. We expect a stronger treatment effect in pro-Republican counties, which could have a better reception of conservative news content from Sinclair. Whether a treatment effect exists for pro-Democratic counties is an empirical question. The results suggest that the treatment effect exists in both pro-Republican and pro-Democratic counties, but is indeed stronger in pro-Republican counties.

Next, we examine the treatment effect of Sinclair's entry on county-pair portfolio distance. We exclude county-pairs with both counties experiencing Sinclair's entry either in the same

year or sequentially so as to have a clean event window for each Sinclair's entry.[16] We recognize that the effect of Sinclair's entry on a county-pair political distance depends on which of the two counties in a pair experiences the Sinclair entry. Sinclair's entry in a county-pair is more likely to decrease the political distance between the pair if the county with the entry is more Democratic, while it is more likely to increase the political distance if the county with the entry is more Republican. We thus construct a new treatment indicator for county-pairs, *Treatment Intensity* that equals one if Sinclair enters the more Republican county (the county with a larger Republican share) in a county-pair, equals minus one if Sinclair enters the more Democratic county in a county-pair, and zero if Sinclair does not enter any of the counties in the pair.

Since the effect of political distance on portfolio distance is only significant after 2012 and Sinclair has no entries between 2000 and 2010, we focus on the time period of 2013-2019 in this analysis. In our balanced sample, we identify 594 county-pairs as treated, and 1,798 county-pairs as controls, during this sample period. Since portfolio distance is constructed annually, the analysis is also conducted at the annual level. The year Sinclair enters a county in a county-pair is event year 0 for the pair. *Post* is a dummy variable that equals one for event years 1-3, and equals zero for event years -2 to 0. Among 594 county-pairs treated during this sample period, 392 experience a positive treatment in political distance ( *Treatment Intensity*=1), and 202 experience a negative treatment ( *Treatment Intensity*=-1).

The results using a stacked-by-event approach are reported in Table 7, Panel B. Column (1) shows that the portfolio distances of county-pairs with positive Sinclair treatment tend to increase relative to those of control county-pairs or county-pairs with negative Sinclair treatment. Column (2) reports the results from a dynamic DiD estimation. The treated county-pairs do not exhibit any significant difference in the trend of portfolio distance before Sinclair's entry, suggesting that Sinclair's entry is relatively exogenous to local portfolio choices. In the three years after Sinclair's entry, county-pairs that experience an increase in political distance due to Sinclair's entry tend to experience an increase in portfolio distance

[16]For county-pairs with sequential entries over a long period so the event windows for the two entries do not overlap, we keep the first event.

relative to county-pairs that experience a decrease in political distance due to Sinclair's entry and county-pairs that experience no Sinclair entry.

Overall, the results in Section 3 suggest that political differences across counties have increasingly contributed to differences in households' equity portfolios between counties over time. The effect of political distance on portfolio distance does not seem to be driven by cross-county differences in potentially confounding factors, and the analysis using Sinclair's entry as a shock to county-pair political distance supports a causal interpretation of the political distance effect.

# 4 Mechanism

In this section, we aim to better understand the mechanism(s) behind the impact of political distance on households' equity portfolio distance. Differences in political views could lead to different expectations about the economy as a whole or about the economic outlook of certain industries or firms, which in turn leads to differences in portfolio allocations between more Democratic counties and more Republican counties. We call this *the differential economic expectations channel*. For example, Meeuwis et al. (2022) find that during the Trump presidency, Republicans become more optimistic, while Democrats more pessimistic about the future of the U.S. economy. They show that such differences lead to differences in the equity share of individuals' portfolios. Another channel that we consider is that Democrats and Republicans over time display more and more diverging values and priorities with respect to a range of political, social, and environmental issues. Such differences in values and preferences can affect portfolio choices. We call this *the differential preferences channel*. These two channels are not mutually exclusive but we will try to distinguish between them in our analysis.

## 4.1 Macroeconomic Expectations

We begin by asking whether the different stock choices by counties with different political leanings are driven by differences in economic expectations.

To measure a county's economic expectations, we again turn to the Gallup surveys (see Section 2.3 for details), which include questions about respondents' political affiliation as well as their perceived macroeconomic conditions and expectations. Specifically, we infer local households' perceived macroeconomic conditions using the question "How would you rate economic conditions in this country today – as excellent, good, only fair, or poor?" For each county-year in our balanced sample, we construct a vector containing the fractions of high-income survey respondents that choose "excellent", "good", "only fair", or "poor". We focus on high-income respondents in this analysis not only because they are more likely to be investors in our sample, but also because their economic expectations are likely to be more informed and meaningful for portfolio choices. Then for a county-pair, we calculate county-pair-year level distance in perceived macroeconomic conditions in the same way as political distance and call it *EconCondition Distance*. To infer local households' macroeconomic expectations, we use the question "Right now, do you think that economic conditions in the country as a whole are getting better or getting worse?" Again, we construct a vector containing the fractions of high-income survey respondents that choose "better", "worse", or "the same", and construct county-pair-year level distance in economic expectations, and call it *EconOutlook Distance*. The correlation between these two economic expectations distances is 0.48. The correlations between *Political Distance* and *EconCondition Distance* as well as *EconOutlook Distance* are 0.28 and 0.40, respectively.

In Table 8, we contrast the impact of political distance and that of economic expectations in explaining county-pair portfolio distance. The effect of political distance on portfolio distance remains statistically significant and relatively large when explicitly including county-pair differences in economic expectations. We also observe a significant positive impact of both economic expectations distances on portfolio distance in the recent two political cycles in columns (1) and (2), consistent with Meeuwis et al. (2022). But when we include both economic expectations distances together in columns (3), only the effect of *EconCondition Distance* remains significant. In column (4) we control for not only economic expectations distances but also the factors examined in Table 5, the effect of political distance on portfolio

distance remains robust. Relative to the result in column (4) of Table 6, the results in Table 8 suggests that the marginal effect of political distance in the recent political cycles declines by 16-21%. These results therefore suggest that part but not all of the effect of political distance on portfolio distance may operate through differences in economic expectations.

### 4.2 Politically Shaped Social and Environmental Preferences

Increasing political polarization suggests that Democrats and Republicans display more and more diverging values, preferences, and priorities with respect to many political, social, and environmental issues.

While exhausting the list of issues on which Democrats and Republicans disagree is impossible, our goal in this section is to use several well motivated examples to illustrate that views and preferences of Democrats and Republicans have been diverging over time and that these differences predictably affect the equity portfolio composition of households residing in Democratic-leaning counties versus in Republican-leaning counties. Specifically, we first use Gallup survey data to identify political, environmental, and social values that exhibit a widening gap between the views of Democrats and Republicans over our sample period. Then, for each specific issue, we test whether advised portfolios in Democratic-leaning versus Republican-leaning counties differ in their allocation to stocks that have negative or positive exposure to a given issue in a way consistent with the observed political gap.

Besides preferences, Democrats and Republicans may also have different economic expectations regarding stocks sensitive to certain environmental or social issues. For example, Democrats and Republicans could have different perceptions of environmental regulation risk and the cash flow consequences for stocks with different exposures to this risk, leading to different portfolio choices on stocks of firms with negative environmental impact. We will address this alternative interpretation in the analysis.

### 4.2.1 Attitudes towards Environmental Protection

Political preferences seem to be increasingly correlated with individuals' views on environmental and social issues (McCright and Dunlap (2011), Painter and Qiu (2020)). To examine how Democrats and Republicans differ in their views about environmental issues and the tradeoff with economic outcomes, we focus on the following Gallup survey question:

> With which one of these statements about the environment and the economy do you most agree: Protection of the environment should be given priority, even at the risk of curbing economic growth (or) economic growth should be given priority, even if the environment suffers to some extent?

The answers are coded as 1 (protect environment), -1 (economic growth priority), and 0 (equal priority). Each Gallup survey also asks respondents for their political leaning (Democrat-leaning, Republican-leaning, Independent). For each Gallup survey year, we compute *Political* $Gap_{Env}$ as the difference between the average response of self-reported Democrats and that of self-reported Republicans. Figure 6a shows the time-series pattern in *Political* $Gap_{Env}$. In all years between 2000 and 2019, the difference between Democrats and Republicans, which is bounded by -2 and +2, is positive, suggesting that Democrats tend to put more emphasis on environmental protection over economic growth relative to Republicans. Importantly, the difference has grown substantially over time, from a little over 0.2 to about 1.0. We observe similar patterns in the responses to questions specific to water pollution, air pollution, global warming, and biodiversity. Overall, the Gallup survey evidence suggests that Democrats tend to become increasingly more willing to favor the environment over economic output compared to Republicans.

We next examine whether the increasing difference in environmental consciousness is reflected in investments in stocks of environmentally harmful businesses. Since Democrats have a preference against environmentally harmful businesses while Republicans do not necessarily favor them, we will focus on Democratic-leaning investors' attitudes towards stocks of environmentally harmful business. If investors invest according to their preferences, then we expect to see that the equity portfolios in counties with a larger Democratic vote share

("Democratic Share (%)") have lower allocations to those stocks. We further expect that the effect to be more pronounced in recent years as the preference gap widens.

We identify stocks of environmentally harmful businesses using the MSCI ESG KLD ratings from 1991-2018. More specifically, we identify a firm as conducting environmentally harmful businesses if according to MSCI it (i) has significant liabilities for hazardous waste sites, (ii) paid a settlement, fine or penalty due to non-compliance with U.S. environmental regulations, (iii) has a history of hazardous waste spills and releases, or (iv) has been sued and/or publicly criticised for its contributions to climate change and exceptionally high greenhouse gas (GHG) emissions as well as its resistance to change. Then for each county's advised portfolio, we compute the average fraction of portfolio value invested in stocks with environmental concerns, $Portfolio\ Fraction_{Env.\ Concerns}$, and relate it to the county's political leaning.

The results in columns (1) and (2) of Table 9 suggest that a county's Democratic leaning is negatively related to investment in stocks with environmental concerns, and more so in the later period of the sample. Although the results are consistent with Democratic investors disliking stocks with environmental concerns, they are also consistent with an alternative interpretation that Democratic-leaning investors view those stocks as less profitable or riskier because they are more subject to environmental regulations and litigation. To distinguish between these two interpretations, we compare Democratic investors' attitude towards stocks with environmental concerns under a Republican presidency versus a Democratic presidency. The expected environmental regulatory risk tend to be lower under a Republican presidency than under a Democratic presidency. Survey evidence suggests that this is particularly true from the perspectives of Democrats. For example, the Gallup Surveys had the following question from 2003 to 2008:

> When it comes to environmental protection, which of these do you think is happening under the Bush administration – the nation's environmental protection policies are being strengthened, the nation's environmental policies are being kept about the same, or the nation's environmental protection policies are being

weakened?

While majority (72.4%) of the Republican-leaning survey respondents believe that the policies are kept about the same and only 16.5% believe that the policies are being weakened, 65.1% of the Democratic-leaning respondents believe that the policies are being weakened. The survey outcomes suggest that Democrats tend to believe in weakening environmental regulations and thus a lower environmental risk for stocks with environmental concerns under a Republican presidency, while Republicans do not think so.[17]

Therefore, if economic expectations drive Democratic-leaning investors' portfolio allocations to stocks of environmentally harmful firms, then we expect them to hold more of those stocks during a Republican presidency relative to during a Democratic presidency. But if environmental preferences drive their portfolio allocation decisions, then we expect them to hold the same amount or even reduce holdings of those stocks during a Republican presidency. The perceived weakening of environmental regulations by Democrats could lead them to believe that environmentally harmful firms would pollute more during a Republican presidency, which could strengthen their unfavorable preferences for those firms, leading to a reduction of portfolio weights on those stocks. The results in column (3) of Table 9 are consistent with the preference interpretation. The negative and significant triple interaction effect suggests that Democratic-leaning counties substantially reduce holdings of stocks with environmental concerns under the Trump administration relative to under the Obama administration. The interaction effect between *Democratic Share* and *Republican President* is positive but statistically insignificant, suggesting that the economic expectations channel could be at work in the earlier period, while in the later period the preference channel triumphs.

Are the results driven by Democratic-leaning counties selling environmentally harmful stocks under Trump due to their environmental preferences or Republican-leaning counties buying those stocks due to a lower perceived environmental regulatory risk? The results in columns (4) and (5) suggest that the results are driven by Democratic-leaning counties rather than Republican-leaning counties, again consistent with the preference-based interpretation.

[17] A similar survey conducted by the Pew Research Center in 2017 yields similar responses under the Trump administration.

The specifications in Table 9 include time fixed effect but not county fixed effects because we wish to compare the portfolio choices of Democratic-leaning counties relative to Republican-leaning counties. In Appendix Table C6 we include county fixed effects and examine the impact of within-county variation in *Democratic Share* on portfolio weights of stocks of environmentally harmful firms. The results are similar to what we report in Table 9

#### 4.2.2 Attitudes towards Labor Protection

Historically, in the U.S. the Democratic Party tends to be more pro-labor while the Republican Party tends to be more pro-business. The partnership between organized labor and the Democratic Party can be traced back to the 1935 National Labor Relations Act spearheaded by the Democrats and the role of industrial unions in the reelection of President Franklin Roosevelt in 1936. The partnership remained strong over time. In fact, Joe Biden's presidential win in the 2020 election is viewed as the biggest victory for U.S. labor unions in the recent decades.

The Gallup survey has the following question related to attitude towards labor union:

> Would you, personally, like to see labor unions in the United States have more influence than they have today, the same amount as today, or less influence than they have today?

The answers are coded as 1 (more influence than they have today), $-1$ (less influence than they have today), and 0 (same amount as today). Figure 6b shows the time-series pattern in the difference of the average response by self-reported Democrats and by self-reported Republicans. The figure shows that Democrats are generally more friendly to labor unions relative to Republicans, and are also increasingly more friendly over time.

Are Democratic-leaning counties more likely to shun stocks of businesses with labor concerns? The MSCI ESG KLD data set also provides indicators on whether a company has labor-related concerns. We identify a company as having labor concerns if in the prior years it has (i) opposed unionization efforts of its employees, breached union contracts or experi-

enced strikes by non-unionized employees, (ii) controversies related to health and safety of its employees, including job accidents, injuries, and fatalities, or (iii) controversies related to its labor management practices in its supply chains, including unsafe working conditions, inadequate pay, excessive working hours or overtime, union issues at supplier facilities, the use of forced, prison or child labor by suppliers. Then for each county's advised portfolio, we compute the fraction of portfolio value invested in stocks with labor concerns, *Portfolio Fraction*$_{Labor\ Concerns}$, and relate it to the county's political leaning.

The results in columns (1) and (2) of Table 10 suggest that more Democratic-leaning counties tend to invest less in stocks with labor concerns, and more so in the more recent period. Similar to the logic in the previous table, we differentiate the preference interpretation and the economic expectations interpretation (due to labor-related regulations and litigation risk) by comparing Democratic-leaning counties' portfolio weights on stocks of firms with labor concerns under a Republican presidency relative to under a Democratic presidency. We find that Democratic-leaning counties reduce holdings of stocks with labor concerns under the Trump administration relative to under the Obama administration, consistent with the preference interpretation (see column (3)). Furthermore, the results are driven by the portfolio decisions of Democratic-leaning counties rather than those of Republican-leaning counties (see columns (4) and (5)).

#### 4.2.3 Attitudes towards Gun Control

Gun control has always been a controversial and dividing issue in the U.S (Miller (2019)). In general, Republicans tend to support more gun rights while Democrats tend to support tighter gun control (Wozniak (2017), Burton et al. (2021)).

The Gallup survey has the following question:

> In general, do you feel that the laws covering the sale of firearms should be made more strict, less strict, or kept as they are now?

The answers are coded as 1 (more strict), $-1$ (less strict), and 0 (kept as they are now).

As in Section 4.2.1, we compute *Political Gap*$_{Firearms}$ as the difference between the average response of self-reported Democrats and that of self-reported Republicans each year. Figure 6c shows the time-series pattern of the differential responses to this question. In all years between 2001 and 2019, the differences between the Democrats and the Republicans are positive, suggesting that Democrats prefer stricter gun control relative to Republicans. More importantly, this difference has grown substantially during this period, from 0.25 to about 0.80.

We then examine whether the difference in the attitudes towards gun control is reflected in investments in stocks of firearm manufacturers. Again, we use the MSCI ESG KLD indicators from 1991-2018 to identify companies involved in firearm-related businesses. We identify a firm as firearm-related if according to MSCI it derives any revenues from the manufacturing or distribution (wholesale or retail) of firearms and small arms ammunition for civilian markets or if it owns or is owned by such a firm.[18] Then for each county's portfolio, we compute the average fraction of portfolio value invested in the firearm-related stocks, *Portfolio Fraction*$_{Guns}$, and relate it to the county's political leaning.

The results in Table 11 suggest that more Democratic-leaning counties tend to invest less in firearm-related stocks relative to more Republican-leaning counties in the last two presidential election cycles, while the difference didn't exist in the earlier period. During the last two Presidential cycles, a 1-standard-deviation increase in *Democratic Share* leads to a 0.15-standard-deviation decrease in the portfolio fraction invested in the firearms-related stocks in the balanced sample.

However, different from the pattern in the previous three tables, we find that holdings of firearm stocks by Democratic-leaning counties do not change between a Republican presidency and a Democratic presidency. This result can be consistent with the preference interpretation, if a Republican presidency does not make Democrats dislike firearm stocks more. Under the economic expectations interpretation, this result can happen if investors do not expect any real change in the gun control laws during either a Republican presidency or a Democratic

[18]This criteria do not cover companies that only cater to the military, government, and law enforcement markets.

presidency, which seems not far from reality. But in this case, cash flow expectations related to perceptions about gun control regulations are unlikely to drive investors' portfolio decisions. Therefore, the significant and negative coefficient on *Democratic Share* $\times$ *Recent* is more likely to be explained by heightened partisan differences in preferences for gun stocks in recent years.

Overall, the results in Section 4.2 suggest that the impact of county-pair political distance on portfolio distance cannot be explained by different macroeconomic expectations or different expectations about regulatory risks on stocks in certain industries. Instead, investors' portfolio choices tend to be related to their political values in predictable ways, and the relation between the two becomes more pronounced in the last two presidential election cycles. These results are consistent with the increasing divergence of political values as evident in the survey data.

### 4.3 Attitudes towards the Other Party

Political scientists have pointed out that political polarization is reflected not only in ideological polarization (difference in policy positions as explored in Section (4.2)), but also in affective polarization, which refers to an emotional dislike and distrust of political out-groups (Iyengar et al. (2019)). Increasing affective polarization has emerged as a new type of division in the U.S. in recent years. The trend is again evident in the survey data. For example, the annual Gallup surveys include the following questions: Next, please tell me whether you have a favorable or unfavorable opinion of each of the following parties. How about Republican Party (Democratic Party)? The answers are coded as 1 (favorable), $-1$ (unfavorable), and 0 (no opinion).

For each year, we construct the fraction of self-reported Democrats having unfavorable views of the Republican Party as well as the fraction of self-reported Republicans having unfavorable views of the Democratic Party. Figure 7 shows that the fraction of respondents having unfavorable views of the other party has been steadily increasing between 2001 and 2019, and it increased by more than 20 percentage points in just nine years.

Do the increasingly unfavorable views of the other party affect investors' equity portfolios and, if so, how? We hypothesize that this could make investors increasingly dislike firms leaning towards the other political party. To test this prediction, we classify the political leaning of a firm by the political leaning of its CEO characterized by his or her political campaign contributions. In particular, using data for executives in S&P 1500 firms between 1992 and 2018 from Fos, Kempf, and Tsoutsoura (2021), we label a CEO as a Democratic- (Republican-) leaning CEO if he or she has made the majority of the contributions to the Democratic (Republican) Party in the most recent 5 years and if he or she has never been classified as a Republican (Democratic) CEO since 1992. This filter allows us to exclude CEOs who make political donations mostly for strategic rather than ideological reasons. Out of all identifiable CEOs associated with public firms in our sample, about 18% are classified as Republican-leaning CEOs, while only 7% of the CEOs are classified as Democratic-leaning CEOs. Given that more CEOs are Republican-leaning, we focus on the selection of stocks with Democratic-leaning CEOs. We compute the average fraction of the advised portfolio value invested in stocks with Democratic CEOs by taking a simple average across all the investment advisers' portfolios in a given county-year.

The results in columns (1) and (2) of Table 12 suggest that a county with a higher Republican vote share in past Presidential Elections ("Republican Share (%)") tends to have lower portfolio weights in stocks with Democratic CEOs, and this negative relation is more pronounced in the last two Presidential Election cycles. A 1-standard-deviation increase in *Republican Share* leads to a 0.16-standard-deviation decrease in the portfolio fraction invested in stocks with Democratic-leaning CEOs in recent years. In contrast, the results in columns (3) and (4) suggest that Republican-leaning counties do not underweigh stocks with Republican CEOs or stocks with politically neutral CEOs.

Overall, portfolio firms' composition seems to align investors' political preference and firms' political leaning. This alignment could be driven by affective polarization, reflecting dislike or distrust of firms managed by CEOs of the opposite party. It could also reflect ideological polarization and disagreement with policies adopted by CEOs of the opposite

party (e.g., policies regarding social or environmental issues).

# 5 Conclusion

Despite debates about the optimal portfolio allocation of "impact" investments (e.g., Green and Roth (2021)), values-based investing is on the rise (e.g., OpenInvest.com), driven by the increasing importance of social and environmental preferences for investment decisions. However, this change is not uniform across the U.S. society. Indeed, Bertrand and Kamenica (2018) and Desmet and Wacziarg (2021) show that heterogeneity in values and beliefs between individuals has gone up over time with the largest increase due to political orientation.

We study the political distance between county-pairs and its effect on the differences of local households' advised equity portfolios from 1997 to 2019. We document an increasing trend in the average political distance over our sample period. Differences in portfolios between two counties seem indeed related to the political distance between both counties, and the sensitivity of portfolio distance to political distance significantly increases towards the end of our sample. To identify the political channel, we examine a shock to local political attitudes due to Sinclair's staggered entry in local media markets. The political distance and the portfolio distance between two counties increase (decrease) when Sinclair enters the more Republican (Democratic) county in the pair, in particular during the last two Presidential election cycles and consistent with the results from our panel regressions.

To shed light on the mechanism through which political distance impacts portfolio distance, we identify several political, social, and environmental dimensions that exhibit a widening gap between Democratic and Republican respondents over our sample period. Consistent with politically shaped value-investing, we find that more Democratic counties invest more in stocks aligned with democratic respondents' values, such as firms led by Democratic CEOs and firms with less environmental concerns, but they invest less in gun manufacturers and distributors and less in firms with labor concerns.

Our results are consistent with the increasing importance of value-investing. They highlight the role that political identity and political polarization play in affecting economic out-

comes such as households' portfolio investments. Given the increasing differences in political orientation across different areas, our findings have implications not only for the integration of U.S. capital markets, but possibly also for the future distribution of wealth and income.

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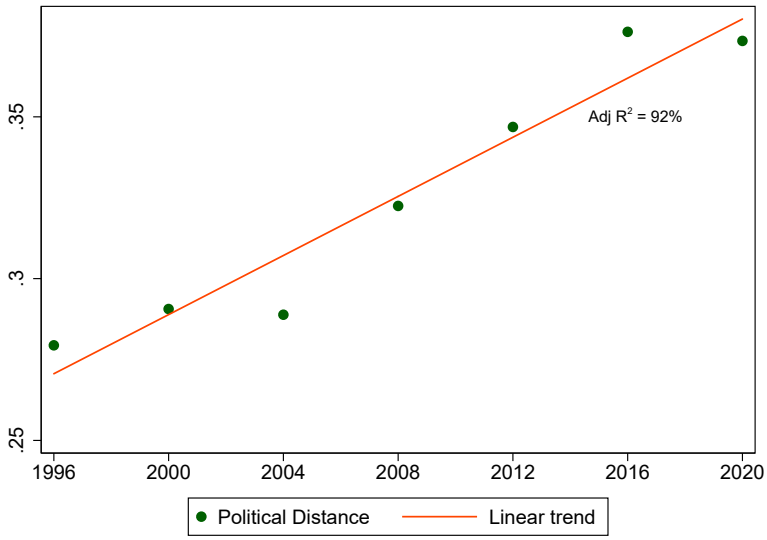



Figure 1: **Political Distance between the U.S. counties**

The figure plots the evolution of the average political distance from 1996 to 2020, between all counties of the United States.

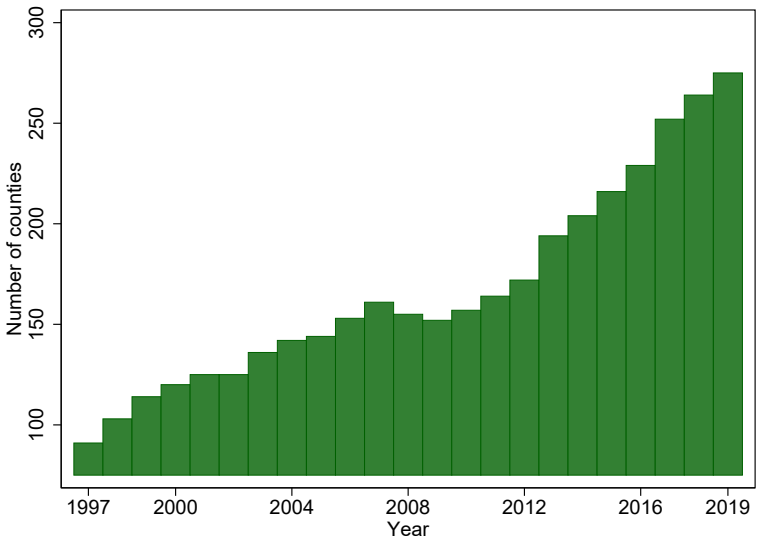
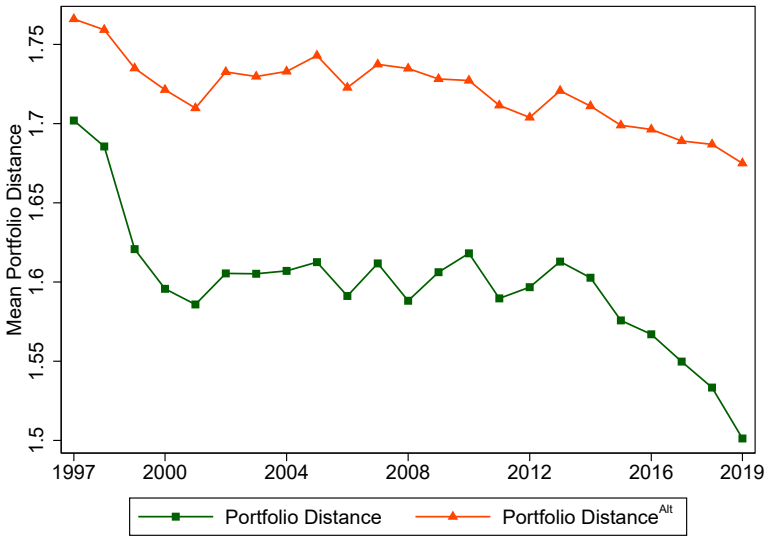
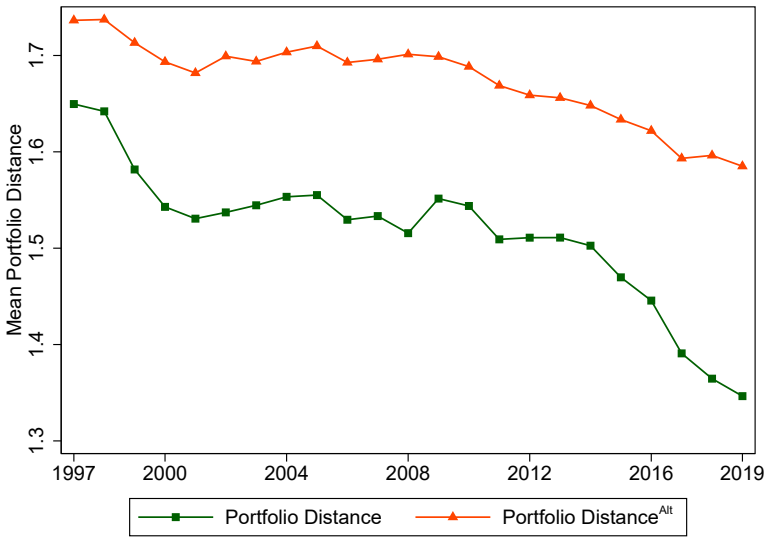



Figure 2: **Number of counties in the full sample.**

The figure plots the number of counties in the full sample over the sample period from 1997 to 2019.



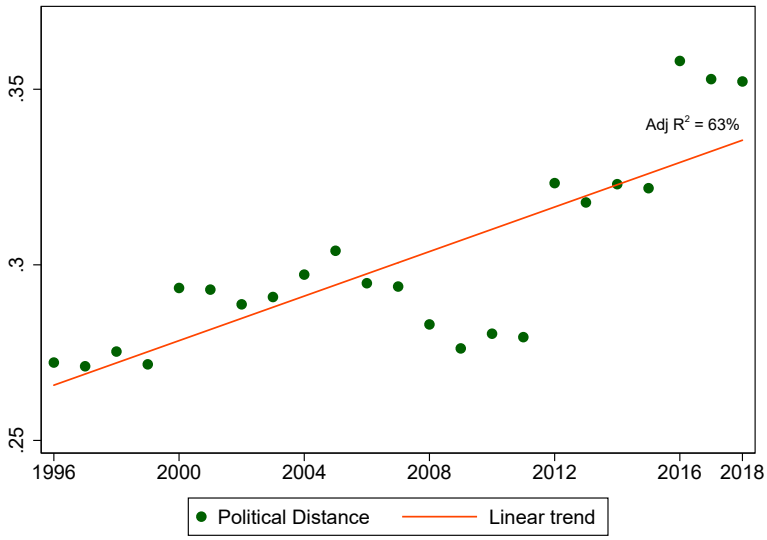

(a) Full sample



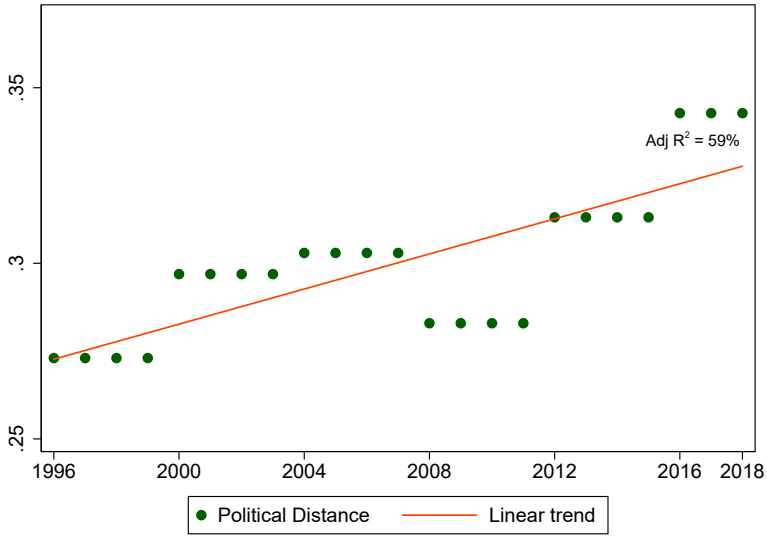

(b) Balanced sample

Figure 3: **Portfolio Distance in the Full and Balanced Samples.**

The figure plots the evolution of the average *Portfolio Distance* (green squares) and *Portfolio Distance*$^{Alt}$ (orange triangles) during the sample period, from 1997 to 2019.




(a) Full sample




(b) Balanced sample

Figure 4: **Political Distance in the Full and Balanced Samples.**

The figure plots the evolution of the average *Political Distance* during the sample period, from 1997 to 2019, for the full sample and the balanced sample.

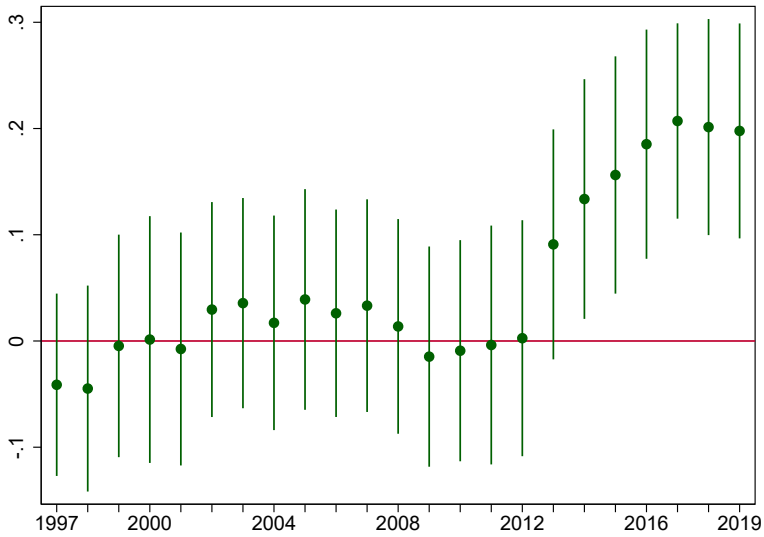
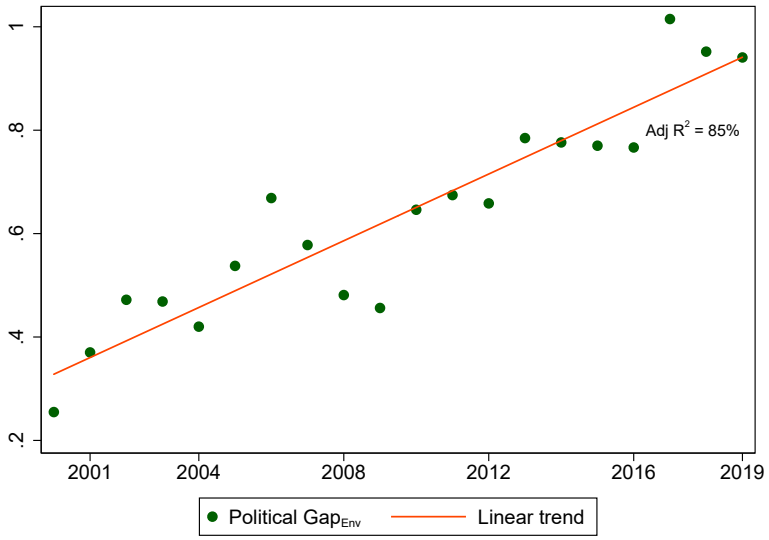
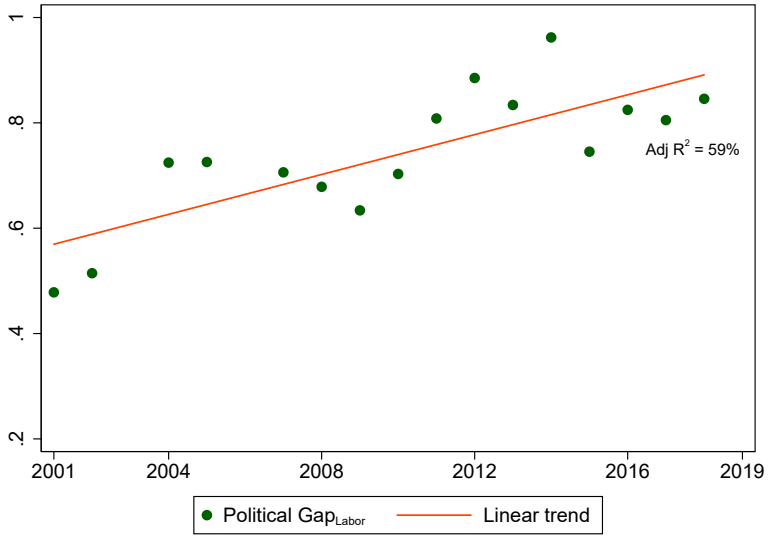



Figure 5: **The Effect of Political Distance on Portfolio Distance over Time**

The figure plots the regression coefficients and their standard errors for the cross-sectional regressions of the county-pair portfolio distance on the political distance lagged by one year in the balanced sample.

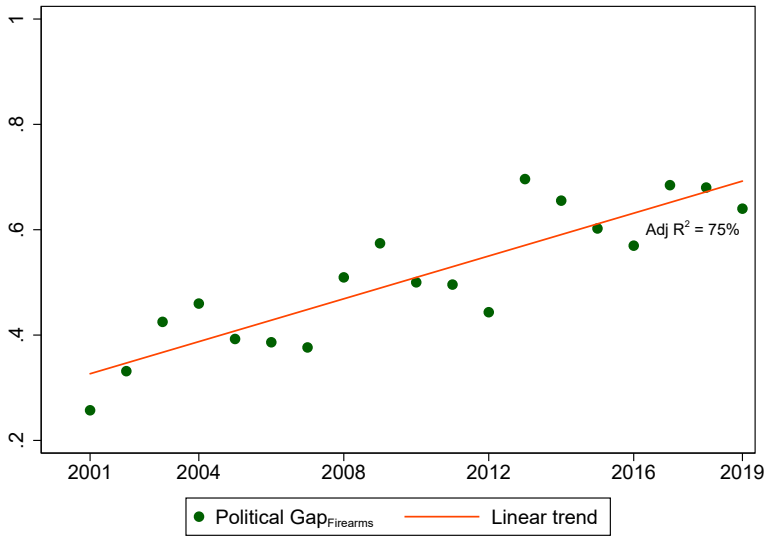



(a) Environmental Protection



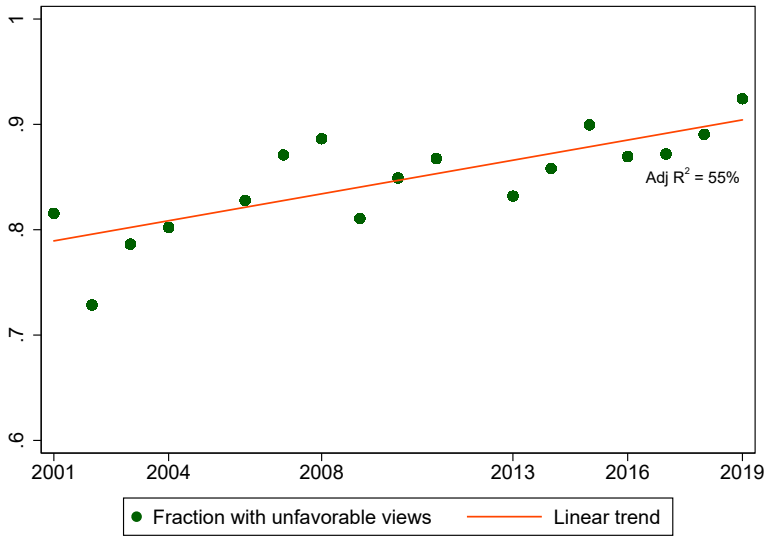

(b) Labor Protection

Figure 6: **Political Gap in Attitudes towards Environmental Protection, Labor Protection, and Gun Control.**

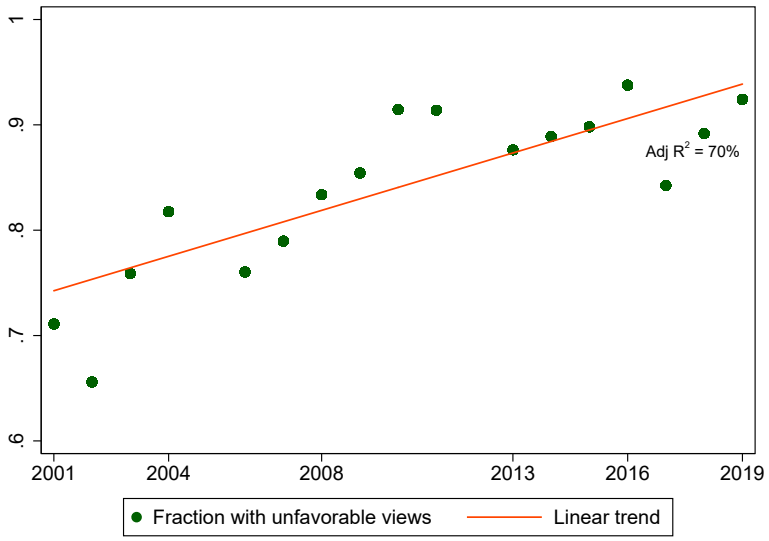



(c) Gun Control

Figure 6: **Political Gap in Attitudes towards Environmental Protection, Labor Protection, and Gun Control.**
The figure plots the evolution of the difference in attitudes towards environmental protection (a), labor protection (b), and (c) gun control laws between self-identified Democratic and Republican respondents in the Gallup survey over time. *Political* $Gap_X$ is the difference between the average answers of self-identified Democrats and self-identified Republicans, where $X =$ *Env, Labor, Firearms* for the following questions. (a) The respondents are asked whether the protection of the environment should be given priority, even at the risk of curbing economic growth (answer = 1), economic growth should be given priority, even if the environment suffers to some extent ($-1$), or both should be given equal priority (0). (b) The respondents are asked whether labor unions in the U.S. should have more influence than today (answer= 1), less influence ($-1$), or the same amount (0). (c) The respondents are asked whether the laws covering the sale of firearms should be made more strict (answer = 1), less strict ($-1$), or kept the same (0)).




(a) Fraction of Democrats with an unfavorable opinion of the Republican Party




(b) Fraction of Republicans with an unfavorable opinion of the Democratic Party

Figure 7: **Views of the Other Party.**

The figure plots the evolution of the Gallup respondents' opinion of the other party. Figure (a) plots the fraction of self-identified Democratic respondents having an unfavorable opinion of the Republican Party. Figure (b) plots the fraction of self-identified Republican respondents having an unfavorable opinion of the Democratic Party.

Table 1: **County Characteristics**

This table presents the summary statistics for the county characteristics for three different sets of counties: all the counties in the United States, counties in the full sample, and counties in the balanced sample. Panel A presents the summary statistics for county population characteristics. *Population* is a county's total population computed as a three-year average based on the 1990, 2000, and 2010 Census data. *Income (per Capita)* is a county's average total income computed as a three-year average based on the 1990, 2000, and 2010 Census data. *College Degree* is a fraction of the county population that has at least an undergraduate (or equivalent) computed as a three-year average based on the 1990, 2000, and 2010 Census data. Panel B presents summary statistics for the voting behavior in the U.S. presidential elections between 1996 and 2016. For each county we compute an average fraction of votes for a Democratic, Republican and other candidates across all the election years between 1996 and 2016. For the counties in the full and balanced samples, we use only those election years that are present in the corresponding samples. All variables are defined in Appendix A.

Panel A. County population characteristics

| Variable | N | Mean | S.D. | Min | Max | % of U.S. Total |
|---|---|---|---|---|---|---|
| *All U.S. counties* | | | | | | |
| Population | 3,137 | 89,172 | 289,431 | 85 | 9,400,369 | 100% |
| Income (per Capita) | 3,137 | 17,349 | 3,921 | 6,280 | 44,245 | 100% |
| College Degree | 3,137 | 0.42 | 0.11 | 0.17 | 0.84 | 100% |
| *Full sample* | | | | | | |
| Population | 309 | 499,777 | 760,337 | 8,445 | 9,400,369 | 54.7% |
| Income (per Capita) | 309 | 23,057 | 5,418 | 13,170 | 44,245 | 61.5% |
| College Degree | 309 | 0.56 | 0.10 | 0.28 | 0.84 | 60.4% |
| *Balanced sample* | | | | | | |
| Population | 94 | 866,181 | 1,199,534 | 8,445 | 9,400,369 | 29.1% |
| Income (per Capita) | 94 | 24,984 | 5,871 | 16,218 | 44,245 | 33.9% |
| College Degree | 94 | 0.57 | 0.09 | 0.31 | 0.78 | 32.3% |

Panel B. County voting behavior

| Variable | N | Mean | S.D. | P25 | Median | P75 |
|---|---|---|---|---|---|---|
| *All U.S. counties* | | | | | | |
| Democratic Share (%) | 3,115 | 39.0 | 12.4 | 30.5 | 38.3 | 46.4 |
| Republican Share (%) | 3,115 | 56.9 | 12.4 | 49.3 | 57.7 | 65.5 |
| Other Share (%) | 3,115 | 4.08 | 1.55 | 2.99 | 3.90 | 4.87 |
| *Full sample* | | | | | | |
| Democratic Share (%) | 309 | 49.7 | 13.2 | 40.4 | 50.0 | 57.5 |
| Republican Share (%) | 309 | 46.0 | 13.1 | 38.4 | 45.4 | 55.6 |
| Other Share (%) | 309 | 4.30 | 3.26 | 2.76 | 3.76 | 4.97 |
| *Balanced sample* | | | | | | |
| Democratic Share (%) | 94 | 54.7 | 12.1 | 45.1 | 54.0 | 63.1 |
| Republican Share (%) | 94 | 41.3 | 12.3 | 33.1 | 42.3 | 49.9 |
| Other Share (%) | 94 | 3.95 | 1.30 | 3.10 | 3.75 | 4.71 |

Table 2: **Summary Statistics for County Portfolios**

This table presents summary statistics for the characteristics of the county portfolios comprising our sample, Panel A for the full sample, Panel B for the balanced sample, at the county-year level. All variables are defined in Appendix A.

Panel A. Full sample

| Variable | N | Mean | S.D. | P25 | Median | P75 |
|---|---|---|---|---|---|---|
| Equity Fraction (%) | 3,848 | 59.3 | 23.5 | 47.8 | 59.6 | 71.5 |
| Out-of-State Equity Fraction (%) | 3,848 | 54.7 | 22.6 | 43.4 | 54.7 | 66.7 |
| ETF Fraction (%) | 3,848 | 8.91 | 14.96 | 0.00 | 1.55 | 12.21 |
| Other Fraction (%) | 3,848 | 31.7 | 18.9 | 24.1 | 32.6 | 41.6 |
| Number of Equities | 3,848 | 116 | 141 | 59 | 87 | 130 |
| Number of Out-of-State Equities | 3,848 | 95 | 110 | 49 | 72 | 109 |
| Avg. Out-of-State Equity Weight (%) | 3,848 | 1.41 | 2.40 | 0.42 | 0.85 | 1.69 |

Panel B. Balanced sample

| Variable | N | Mean | S.D. | P25 | Median | P75 |
|---|---|---|---|---|---|---|
| Equity Fraction (%) | 2,109 | 63.1 | 22.3 | 52.6 | 62.1 | 72.0 |
| Out-of-State Equity Fraction (%) | 2,109 | 57.8 | 21.8 | 48.1 | 56.6 | 66.9 |
| ETF Fraction (%) | 2,109 | 5.59 | 9.06 | 0.00 | 1.15 | 7.61 |
| Other Fraction (%) | 2,109 | 31.3 | 20.5 | 24.6 | 32.2 | 40.1 |
| Number of Equities | 2,109 | 121 | 108 | 69 | 95 | 136 |
| Number of Out-of-State Equities | 2,109 | 98 | 86 | 58 | 78 | 111 |
| Avg. Out-of-State Equity Weight (%) | 2,109 | 0.92 | 1.02 | 0.29 | 0.61 | 1.20 |
| | | | | | | |
| Portfolio Fraction$_{\text{Dem CEO}}$ (%) | 2,109 | 5.43 | 3.53 | 3.15 | 4.82 | 7.01 |
| Portfolio Fraction$_{\text{Env. Concerns}}$ (%) | 2,109 | 37.5 | 12.9 | 29.4 | 37.1 | 44.5 |
| Portfolio Fraction$_{\text{Firearms}}$ (%) | 2,109 | 0.35 | 0.79 | 0.00 | 0.00 | 0.41 |
| Portfolio Fraction$_{\text{Labor Concerns}}$ (%) | 2,109 | 33.8 | 21.5 | 12.9 | 34.7 | 52.5 |

Table 3: **County-Pair Distances**

This table presents summary statistics for various county pair distance measures, for the full sample (Panel A) and balanced sample (Panel B). All variables are defined in Appendix A.

Panel A. County-pair distances, full sample

| Variable | N | Mean | S.D. | P25 | Median | P75 |
|---|---|---|---|---|---|---|
| Portfolio Distance | 343,626 | 1.577 | 0.24 | 1.408 | 1.58 | 1.759 |
| Portfolio Distance$_{\text{Alt}}$ | 343,626 | 1.708 | 0.173 | 1.582 | 1.721 | 1.846 |
| Political Distance | 343,626 | 0.315 | 0.223 | 0.138 | 0.270 | 0.446 |
| PD Dem Component (%) | 343,626 | 14.7 | 11.1 | 5.8 | 12.4 | 21.1 |
| PD Rep Component (%) | 343,626 | 14.9 | 11.1 | 5.9 | 12.7 | 21.5 |
| PD Oth Component (%) | 343,626 | 1.94 | 2.83 | 0.42 | 1.02 | 2.44 |

Panel B. County-pair distances, balanced sample

| Variable | N | Mean | S.D. | P25 | Median | P75 |
|---|---|---|---|---|---|---|
| Portfolio Distance | 96,008 | 1.511 | 0.239 | 1.338 | 1.511 | 1.683 |
| Portfolio Distance$_{\text{Alt}}$ | 96,008 | 1.672 | 0.174 | 1.545 | 1.680 | 1.810 |
| Political Distance | 96,008 | 0.303 | 0.212 | 0.135 | 0.260 | 0.429 |
| PD Dem Component (%) | 96,008 | 14.1 | 10.5 | 5.7 | 12.0 | 20.3 |
| PD Rep Component (%) | 96,008 | 14.5 | 10.7 | 5.9 | 12.4 | 20.9 |
| PD Oth Component (%) | 96,008 | 1.71 | 1.95 | 0.38 | 0.94 | 2.37 |
| PD Gallup All | 47,802 | 0.296 | 0.203 | 0.135 | 0.254 | 0.417 |
| PD Gallup High Income | 47,802 | 0.333 | 0.233 | 0.148 | 0.284 | 0.471 |
| PD Gallup Low Income | 47,802 | 0.299 | 0.205 | 0.144 | 0.256 | 0.408 |
| Population Difference | 96,008 | 0.936 | 1.477 | 0.212 | 0.473 | 0.936 |
| Income Difference | 96,008 | 7.231 | 6.521 | 2.300 | 5.290 | 10.36 |
| Education Difference | 96,008 | 0.100 | 0.077 | 0.039 | 0.086 | 0.143 |
| Geographical Distance | 96,008 | 1.019 | 0.729 | 0.437 | 0.828 | 1.508 |
| Industry Distance | 96,008 | 0.379 | 0.153 | 0.271 | 0.349 | 0.455 |
| Religious Distance | 96,008 | 0.555 | 0.332 | 0.291 | 0.498 | 0.765 |

Table 4: **Effect of Political Distance on Portfolio Distance**

This table presents the effects of *Political Distance* on *Portfolio Distance*. Panel A reports the baseline effect (annual level). Panel B reports the change in the effect over time, in particular in the recent years of the (balanced) sample, both at the annual level and election cycle level. *Recent* is an indicator variable equal to one for years after 2012. Standard errors are double-clustered by county $A$ and county $B$. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

Panel A. Baseline Results

| | Portfolio Distance | | | |
|---|---|---|---|---|
| | Full Sample | | Balanced Sample | |
| | (1) | (2) | (3) | (4) |
| Political Distance | 0.040* | 0.071** | 0.066 | 0.130*** |
| | (0.024) | (0.032) | (0.042) | (0.046) |
| Constant | 1.565*** | 1.555*** | 1.491*** | 1.471*** |
| | (0.015) | (0.010) | (0.023) | (0.014) |
| Observations | 343,626 | 343,626 | 96,008 | 96,008 |
| Adjusted $R^2$ | 0.033 | 0.686 | 0.088 | 0.669 |
| Time FE | Yes | Yes | Yes | Yes |
| County Pair FE | No | Yes | No | Yes |

Panel B. Time Trend

| | Portfolio Distance | | | |
|---|---|---|---|---|
| | Annual Level | | Presidential Cycle Level | |
| | (1) | (2) | (3) | (4) |
| Political Distance | 0.008 | 0.065 | 0.010 | 0.069 |
| | (0.044) | (0.055) | (0.045) | (0.056) |
| Political Distance × Recent | 0.161*** | 0.111*** | 0.164*** | 0.110*** |
| | (0.040) | (0.040) | (0.041) | (0.041) |
| Constant | 1.491*** | 1.480*** | 1.485*** | 1.474*** |
| | (0.023) | (0.015) | (0.022) | (0.015) |
| Observations | 96,008 | 96,008 | 25,848 | 25,848 |
| Adjusted $R^2$ | 0.093 | 0.672 | 0.105 | 0.690 |
| Time FE | Yes | Yes | Yes | Yes |
| County Pair FE | No | Yes | No | Yes |

Table 5: **Effect of Differences in County Characteristics on Portfolio Distance**

This table shows that the effect of *Political Distance* on *Portfolio Distance* is robust to controlling for the differences in the time-varying county characteristics. Standard errors are double-clustered by county $A$ and county $B$. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Distance | | | | |
|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | |
| Political Distance | 0.069 | 0.069 | 0.074 | 0.074 | 0.077 |
| | (0.054) | (0.054) | (0.053) | (0.056) | (0.054) |
| Political Distance × Recent | 0.104** | 0.108*** | 0.084** | 0.099** | 0.086** |
| | (0.040) | (0.040) | (0.042) | (0.042) | (0.042) |
| Population Difference × Recent | -0.003 | -0.002 | -0.003 | -0.003 | -0.002 |
| | (0.004) | (0.004) | (0.004) | (0.004) | (0.004) |
| Income Difference × Recent | -0.002 | -0.002 | -0.002 | -0.002 | -0.002 |
| | (0.001) | (0.001) | (0.002) | (0.002) | (0.001) |
| Education Difference × Recent | 0.172 | 0.173 | 0.106 | 0.167 | 0.108 |
| | (0.146) | (0.144) | (0.123) | (0.138) | (0.121) |
| Geographical Distance × Recent | | -0.010 | | | -0.010 |
| | | (0.014) | | | (0.014) |
| Industry Distance × Recent | | | 0.068 | | 0.060 |
| | | | (0.103) | | (0.101) |
| Religious Distance × Recent | | | | 0.015 | 0.010 |
| | | | | (0.023) | (0.021) |
| Population Difference | -0.044 | -0.040 | -0.046 | -0.043 | -0.041 |
| | (0.028) | (0.028) | (0.029) | (0.028) | (0.029) |
| Income Difference | 0.004* | 0.003* | 0.003 | 0.004* | 0.003 |
| | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) |
| Education Difference | 0.084 | 0.064 | 0.085 | 0.090 | 0.068 |
| | (0.186) | (0.175) | (0.189) | (0.184) | (0.178) |
| Industry Distance | | | -0.250** | | -0.248** |
| | | | (0.096) | | (0.098) |
| Religious Distance | | | | -0.020 | -0.019 |
| | | | | (0.026) | (0.026) |
| Constant | 1.487*** | 1.489*** | 1.582*** | 1.494*** | 1.590*** |
| | (0.037) | (0.037) | (0.051) | (0.038) | (0.052) |
| Observations | 96,008 | 96,008 | 96,008 | 96,008 | 96,008 |
| Adjusted $R^2$ | 0.673 | 0.674 | 0.675 | 0.673 | 0.675 |
| Time FE | Yes | Yes | Yes | Yes | Yes |
| County Pair FE | Yes | Yes | Yes | Yes | Yes |

Table 6: **Effect of Survey-based Political Distance on Portfolio Distance**

This table presents the effects of *Political Distance* measured using the Gallup U.S. Daily survey on *Portfolio Distance*. In column (1), the measure *PD Gallup All* is based on all Gallup respondents. In columns (2)-(5) we split the respondents into high- and low-income ones (*PD Gallup High Income* and *PD Gallup Low Income* variables), based on whether their annual household income is above or below the county median household income. Standard errors are double-clustered by county $A$ and county $B$. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Distance | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| PD Gallup | 0.049*** | | | |
| | (0.017) | | | |
| PD Gallup High Income | | 0.032** | 0.032** | -0.041 |
| | | (0.016) | (0.015) | (0.029) |
| PD Gallup Low Income | | | -0.005 | |
| | | | (0.020) | |
| PD Gallup High Income × | | | | 0.108*** |
| Recent | | | | (0.032) |
| Constant | 1.453*** | 1.457*** | 1.458*** | 1.458*** |
| | (0.005) | (0.005) | (0.009) | (0.005) |
| Observations | 47,802 | 47,802 | 47,802 | 47,802 |
| Adjusted $R^2$ | 0.746 | 0.746 | 0.746 | 0.749 |
| Time FE | Yes | Yes | Yes | Yes |
| County Pair FE | Yes | Yes | Yes | Yes |

Table 7: **Sinclair Shock and its Effect on Portfolio Distance**

Panel A presents the effects on Sinclair entry on *Republican Share*, the fraction of votes for the Republican candidate in a county in a presidential election, and Event Time is in presidential cycles (Event Time[0] is the presidential election cycle with Sinclair entry for treated counties). Standard errors are double-clustered by county and by year. Panel B presents the effects on Sinclair entry on *Portfolio Distance*, and Event Time is in calendar years (Event Time[0] is the year with Sinclair entry for treated counties). Standard errors are double-clustered by county-pair and by year. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

Panel A. Sinclair Entry and Republican Share

| | Republican Share | | | |
|---|---|---|---|---|
| | | | Rep. < Dem. | Rep. ≥ Dem. |
| | (1) | (2) | (3) | (4) |
| Treated × Post | 0.020* | | | |
| | (0.009) | | | |
| Treated × Event Time[-2] | | 0.005 | 0.003 | 0.008 |
| | | (0.008) | (0.009) | (0.009) |
| Treated × Event Time[-1] | | -0.002 | -0.005 | 0.003 |
| | | (0.003) | (0.003) | (0.003) |
| Treated × Event Time[+1] | | 0.013** | 0.010* | 0.017** |
| | | (0.006) | (0.006) | (0.007) |
| Treated × Event Time[+2] | | 0.021** | 0.010 | 0.037** |
| | | (0.009) | (0.008) | (0.014) |
| Treated × Event Time[+3] | | 0.033** | 0.025* | 0.044** |
| | | (0.011) | (0.011) | (0.018) |
| Observations | 1,523 | 1,523 | 1,456 | 1,426 |
| Adjusted $R^2$ | 0.948 | 0.948 | 0.947 | 0.951 |
| EventID × County FE | Yes | Yes | Yes | Yes |
| EventID × Calendar time FE | Yes | Yes | Yes | Yes |

Panel B. Sinclair Entry and Portfolio Distance

| | Portfolio Distance | |
|---|---|---|
| | (1) | (2) |
| Treatment Intensity × Post | 0.215** | |
| | (0.067) | |
| Treatment Intensity × Event Time[-2] | | -0.120 |
| | | (0.072) |
| Treatment Intensity × Event Time[-1] | | -0.088 |
| | | (0.085) |
| Treatment Intensity × Event Time[+1] | | 0.143*** |
| | | (0.037) |
| Treatment Intensity × Event Time[+2] | | 0.108 |
| | | (0.090) |
| Treatment Intensity × Event Time[+3] | | 0.187* |
| | | (0.092) |
| Observations | 35,928 | 35,928 |
| Adjusted $R^2$ | 0.813 | 0.813 |
| EventID × County-pair FE | Yes | Yes |
| EventID × Calendar time FE | Yes | Yes |

Table 8: **Economic Expectations**

This table presents the effect of the distance in the future economic expectations of high income individuals (*EconOutlook Distance*), column (1)) and of the distance in their beliefs about the current economic conditions (*EconCondition Distance*),column (2)) on *Portfolio Distance*. Column (3) shows that the effect of *Political Distance* on *Portfolio Distance* is robust to inclusion of both of the variables. In addition, in column (4) we include other controls: *Population Difference*, *Income Difference*, *Education Difference*, *Geographical Distance*, *Industry Distance*, and *Religious Distance* as well as their interactions with the *Recent* dummy. Standard errors are double-clustered by county *A* and by county *B*. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Distance | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| PD Gallup High Income | -0.029 | -0.024 | -0.024 | -0.036 |
| | (0.026) | (0.025) | (0.025) | (0.031) |
| PD Gallup High Income × | 0.091*** | 0.085*** | 0.088*** | 0.106*** |
| Recent | (0.029) | (0.029) | (0.029) | (0.037) |
| EconOutlook Distance | -0.046** | | -0.015 | -0.023 |
| | (0.021) | | (0.021) | (0.020) |
| EconOutlook Distance × | 0.055* | | -0.003 | 0.009 |
| Recent | (0.032) | | (0.026) | (0.028) |
| EconCondition Distance | | -0.060** | -0.057* | -0.062** |
| | | (0.030) | (0.031) | (0.030) |
| EconCondition Distance × | | 0.106*** | 0.109*** | 0.119*** |
| Recent | | (0.030) | (0.033) | (0.035) |
| Constant | 1.459*** | 1.455*** | 1.457*** | 1.416*** |
| | (0.005) | (0.006) | (0.006) | (0.091) |
| Observations | 47,802 | 47,802 | 47,802 | 47,802 |
| Adjusted $R^2$ | 0.749 | 0.750 | 0.750 | 0.751 |
| Other Controls | No | No | No | Yes |
| Time FE | Yes | Yes | Yes | Yes |
| County Pair FE | Yes | Yes | Yes | Yes |

Table 9: **Attitudes towards Environmental Protection and Portfolio Allocation**

This table reports the relation between attitudes towards environmental protection proxied by *Democratic Share* and *Portfolio Fraction*$_{Env.Concerns}$, the average portfolio fraction invested in firms engaged in environmentally harmful businesses within a county. In column (4) and (5) we report the results for two subsets of counties, those with *Democratic Share* above 50% and those with *Republican Share* above 50%. Standard errors are clustered by county. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Fraction$_{\text{Env.Concerns}}$ | | | | |
|---|---|---|---|---|---|
| | | | | Dem.Sh. $> 0.5$ | Rep.Sh. $> 0.5$ |
| | (1) | (2) | (3) | (4) | (5) |
| Democratic Share | 0.0015 | 0.0529 | 0.0125 | | |
| | (0.073) | (0.078) | (0.085) | | |
| Democratic Share $\times$ Recent | | -0.1423* | -0.0481 | | |
| | | (0.073) | (0.072) | | |
| Republican President | | | | -0.0431*** | 0.0140 |
| | | | | (0.008) | (0.020) |
| Democratic Share $\times$ Republican President | | | 0.0743 | | |
| | | | (0.051) | | |
| Democratic Share $\times$ Republican President $\times$ Recent | | | -0.1887*** | | |
| | | | (0.069) | | |
| Constant | 0.3746*** | 0.3716*** | 0.3717*** | 0.4231*** | 0.4322*** |
| | (0.044) | (0.044) | (0.044) | (0.011) | (0.030) |
| Observations | 2,109 | 2,109 | 2,109 | 439 | 154 |
| Adjusted $R^2$ | 0.216 | 0.220 | 0.221 | 0.054 | -0.005 |
| Time FE | Yes | Yes | Yes | No | No |

Table 10: **Attitudes towards Labor Protection and Portfolio Allocation**

This table reports the relation between attitudes towards labor protection proxied by *Democratic Share* and *Portfolio Fraction*$_{Labor\ Concerns}$, the average portfolio fraction invested in firms engaged in environmentally harmful businesses within a county. In column (4) and (5) we report the results for two subsets of counties, those with *Democratic Share* above 50% and those with *Republican Share* above 50%. Standard errors are clustered by county. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Fraction$_{\text{Labor Concerns}}$ | | | | |
|---|---|---|---|---|---|
| | | | | Dem.Sh. $> 0.5$ | Rep.Sh. $> 0.5$ |
| | (1) | (2) | (3) | (4) | (5) |
| Democratic Share | -0.0102 | 0.0265 | -0.0002 | | |
| | (0.042) | (0.036) | (0.045) | | |
| Democratic Share $\times$ Recent | | -0.1016* | -0.0306 | | |
| | | (0.058) | (0.061) | | |
| Republican President | | | | -0.0178** | 0.0342 |
| | | | | (0.008) | (0.031) |
| Democratic Share $\times$ Republican President | | | 0.0490 | | |
| | | | (0.031) | | |
| Democratic Share $\times$ Republican President $\times$ Recent | | | -0.1432** | | |
| | | | (0.068) | | |
| Constant | 0.3433*** | 0.3412*** | 0.3411*** | 0.5363*** | 0.5421*** |
| | (0.026) | (0.025) | (0.026) | (0.012) | (0.025) |
| Observations | 2,109 | 2,109 | 2,109 | 439 | 154 |
| Adjusted $R^2$ | 0.825 | 0.826 | 0.826 | 0.006 | 0.008 |
| Time FE | Yes | Yes | Yes | No | No |

Table 11: **Attitudes towards Gun Control and Portfolio Allocation**

This table reports the relation between attitudes towards gun control proxied by *Democratic Share* and *Portfolio Fraction*$_{Firearms}$, the average portfolio fraction invested in firms involved in small firearms production and distribution within a county. In column (4) and (5) we report the results for two subsets of counties, those with *Democratic Share* above 50% and those with *Republican Share* above 50%. Standard errors are clustered by county. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Fraction$_{\text{Firearms}}$ | | | | |
|---|---|---|---|---|---|
| | | | | Dem.Sh. $> 0.5$ | Rep.Sh. $> 0.5$ |
| | (1) | (2) | (3) | (4) | (5) |
| Democratic Share | -0.0038 | 0.0008 | -0.0024 | | |
| | (0.003) | (0.002) | (0.003) | | |
| Democratic Share $\times$ Recent | | -0.0127** | -0.0148** | | |
| | | (0.006) | (0.007) | | |
| Republican President | | | | -0.0004 | -0.0044 |
| | | | | (0.001) | (0.003) |
| Democratic Share $\times$ Republican President | | | 0.0059 | | |
| | | | (0.005) | | |
| Democratic Share $\times$ Republican President $\times$ Recent | | | 0.0055 | | |
| | | | (0.007) | | |
| Constant | 0.0056*** | 0.0053*** | 0.0055*** | 0.0073*** | 0.0113*** |
| | (0.002) | (0.002) | (0.002) | (0.001) | (0.002) |
| Observations | 2,109 | 2,109 | 2,109 | 439 | 154 |
| Adjusted $R^2$ | 0.158 | 0.167 | 0.170 | -0.002 | 0.021 |
| Time FE | Yes | Yes | Yes | No | No |

Table 12: **Attitudes towards the Other Party and Portfolio Allocations**

This table reports the relation between *Republican Share* and *Portfolio Fraction*$_{Dem\ CEO}$, the average portfolio fraction invested in firms with a Democratic-leaning CEO within a county. Standard errors are clustered by county. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Fraction$_{\text{Dem CEO}}$ | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Republican Share | -0.0227*** | -0.0107 | -0.0772* | -0.0498 |
| | (0.008) | (0.011) | (0.045) | (0.050) |
| Republican Share × Recent | | -0.0336* | | -0.0316* |
| | | (0.017) | | (0.019) |
| Constant | 0.0637*** | 0.0629*** | 0.0864*** | 0.0789*** |
| | (0.003) | (0.003) | (0.019) | (0.020) |
| Observations | 2,109 | 2,109 | 2,109 | 2,109 |
| Adjusted $R^2$ | 0.195 | 0.198 | 0.295 | 0.298 |
| Time FE | Yes | Yes | Yes | Yes |
| County FE | No | No | Yes | Yes |

# Appendix

## A Variable Definitions

| Variable | Definition |
|---|---|
| *Investment adviser characteristics, defined at adviser level* | |
| 13f AUM / ADV AUM | The ratio between the total value of holdings reported in form 13f and the total assets under management reported in form ADV of an investment adviser. |
| Account Size | *AUM* divided by *Number of Accounts*, in million USD. |
| AUM | Adviser's total assets under management as reported in its form ADV, in billion USD. |
| Number of Accounts | Total number of accounts as reported in an adviser's form ADV. |
| Share of individuals, AUM-based | Assets under management managed for individual clients and high-net-worth individuals divided by the total assets under management as reported in form ADV, ($AUM$). |
| Share of individuals, count-based | Number of individual clients and high-net-worth individuals divided by the total number of clients, in percent |
| *Portfolio characteristics, defined at county level* | |
| Avg. Out-of-State Equity Weight | An equal-weighted average across all out-of-state stocks held within a county in a year, in percent. |
| ETF Fraction | Total ETF holdings from form 13f divided by the total assets under management as reported in form ADV ($AUM$), in percent. This variable is an equal-weighted average across the investment advisers that primarily serve individual clients and high-net-worth individuals in a county in a year. |
| Equity Fraction | Total common equity holdings from form 13f divided by the total assets under management as reported in form ADV ($AUM$), in percent. This variable is an equal-weighted average across the investment advisers that primarily serve individual clients and high-net-worth individuals in a county in a year. |
| Other Fraction | Total holdings other than equities and ETFs divided by the total assets under management as reported in form ADV ($AUM$), in percent. This variable is an equal-weighted average across the investment advisers that primarily serve individual clients and high-net-worth individuals in a county in a year. |
| Out-of-State Equity Fraction | Total out-of-state equity holdings from form 13f divided by the total assets under management as reported in form ADV ($AUM$), in percent. Out-of-state common equity is defined as common equity issued by corporations headquartered in states distinct from the headquarter state of an investment adviser. This variable is an equal-weighted average across the investment advisers that primarily serve individual clients and high-net-worth individuals in a county in a year. |
| *County characteristics, defined at county level* | |

| | |
|---|---|
| Population | County population computed as a three-year average based on the 1990, 2000, and 2010 Census data. |
| Income | Average county income per capita computed as a three-year average based on the 1990, 2000, and 2010 Census data. |
| College Degree | Fraction of county residents with education level equivalent to a college degree or higher computed as a three-year average based on the 1990, 2000, and 2010 Census data. |
| *Dependent Variables* | |
| Portfolio Distance | Defined as a sum of absolute differences between county out-of-state equity portfolio weights (L1-norm), $\sum_{k=1}^{N_{AB,t}} \lvert w_{A,t}^k - w_{B,t}^k \rvert$, where $w_{A,t}^k$ ($w_{B,t}^k$) is the weight of stock $k$ in the portfolio of county $A$ ($B$) in year $t$, for all stocks issued by firms that are headquartered in states other than states where counties $A$ and $B$ are located. |
| Portfolio Distance$^{\text{Alt}}$ | Defined as scaled sum of differences between indicator variables for whether a stock is held in a given county (L0-norm), $2 \cdot \frac{1}{N_{AB,t}} \sum_{k=1}^{N_{AB,t}} \lvert \mathbb{1}_{A,t}^k - \mathbb{1}_{B,t}^k \rvert$, where $\mathbb{1}_{A,t}^k$ ($\mathbb{1}_{B,t}^k$) is an indicator variable equal 1 if stock $k$ is in the portfolio of county $A$ ($B$) in year $t$ and 0 otherwise, for all stocks issued by firms that are headquartered in states other than states where counties $A$ and $B$ are located. |
| Portfolio Fraction$_{\text{Dem CEO}}$ | County average portfolio fraction invested in firms with a Democratic-leaning CEO across all investment advisers within a county in a given year. A CEO is identified as a Democratic-leaning if the majority of his/her contributions are to the Democratic Party (vs. Republican vs. Independent) and he/she has never contributed to the Republican Party in the past. |
| Portfolio Fraction$_{\text{Firearms}}$ | County average portfolio fraction invested in firms identified as involved in small firearm-related businesses, by the MSCI ESG KLD indicators from 1991-2018. A firm is identified as firearm-related if according to MSCI it derives any revenues from the manufacture, distribution (wholesale or retail) of firearms and small arms ammunitions for civilian markets (military, government, and law enforcement markets are excluded) or if it owns or is owned by such a firm (according to indicator *FIR-con-A*). |
| Portfolio Fraction$_{\text{Labor Concerns}}$ | County average portfolio fraction invested in firms that have labor concerns in the prior years as identified by the MSCI ESG KLD indicators from 1991-2018. A firm is identified as having labor concerns if in the prior years it (i) opposed unionization efforts of its employees, breached union contracts or experienced strikes by non-unionized employees (as captured by indicator *EMP-con-A*), (ii) was involved in controversies related to health and safety of its employees, including job accidents, injuries, and fatalities, (*EMP-con-B*) or (iii) was involved in controversies related to its labor management practices in its supply chains, including unsafe working conditions, inadequate pay, excessive working hours or overtime, union issues at supplier facilities, the use of forced, prison or child labor by suppliers (indicators *EMP-con-F* and *EMP-con-G*). |
| Portfolio Fraction$_{\text{Rep CEO}}$ | County average portfolio fraction invested in firms with a Republican-leaning CEO across all investment advisers within a county in a given year. A CEO is identified as a Republican-leaning if the majority of his/her contributions are to the Republican Party (vs. Democratic vs. Independent) and he/she has never contributed to the Democratic Party in the past. |

| | |
|---|---|
| Portfolio Fraction$_{\text{Environmental Concerns}}$ | County average portfolio fraction invested in firms conducting environmentally harmful in the prior years as identified by the MSCI ESG KLD indicators from 1991-2018. A firm is identified as conducting environmentally harmful businesses if according to MSCI it (i) has significant liabilities for hazardous waste sites (as captured by indicator *ENV-con-A*), (ii) paid a settlement, fine or penalty due to non-compliance with U.S. environmental regulations (*ENV-con-B*), (iii) has a history of hazardous waste spills and releases (*ENV-con-D*), or (iv) has been sued and/or publicly criticised for its contribution to climate change and exceptionally high GHGs emissions as well as resistance to change (*ENV-con-F*). |
| *Main Explanatory Variables* | |
| Democratic Share (%) | Fraction of voters supporting a Democratic candidate in the U.S. presidential elections, in percentage points. |
| Political Distance | L1-norm distance between the political preferences vectors for a pair of counties. A political preferences vector consists of the share of voters supporting a Democratic, Republican, and other/independent candidate during the U.S. presidential elections. |
| PD Dem Component | The absolute difference between the two counties' fractions of voters supporting a Democrat candidate in the U.S. presidential elections, in percent. |
| PD Rep Component | The absolute difference between the two counties' fractions of voters supporting a Republican candidate in the U.S. presidential elections, in percent. |
| PD Oth Component | The absolute difference between the two counties' fractions of voters supporting an independent/other candidate in the U.S. presidential elections, in percent. |
| PD Gallup All | L1-norm distance between the political preferences vectors based on the Gallup U.S. Daily survey data for a pair of counties. A Gallup political preferences vector consists of the share of respondents reporting their party affiliation as Democratic, Republican, and other/independent, based on the question "In politics, as of today, do you consider yourself a Republican, a Democrat, or an Independent?" |
| PD Gallup High Income | L1-norm distance between the political preferences vectors based on the high-income respondents (annual family income is above the county median) of the Gallup U.S. Daily survey. |
| PD Gallup Low Income | L1-norm distance between the political preferences vectors based on the low-income respondents (annual family income is below the county median) of the Gallup U.S. Daily survey. |
| Recent | Indicator variable equal to one if year is 2013 or later and zero otherwise. |
| Republican Share (%) | Fraction of voters supporting a Republican candidate in the U.S. presidential elections, in percentage points. |
| *Control Variables* | |
| EconCondition Distance | L1-norm distance between two vectors of beliefs about current economic conditions for a pair of counties. A vector consists of county-level fractions of the high-income respondents choosing one of the four answers when answering the following question from the U.S. Daily Gallup Survey: "How would you rate economic conditions in this country today? – excellent, good, only fair, or poor?" |

| | |
|---|---|
| EconOutlook Distance | L1-norm distance between two vectors of beliefs about future economic conditions for a pair of counties. A vector consists of county-level fractions of the high-income respondents choosing one of the three answers when answering the following question from the U.S. Daily Gallup Survey: "Right now, do you think that economic conditions in the country as a whole are getting better or getting worse? – getting better, getting worse, are about the same" |
| Education Difference | For a pair of counties, difference between the fractions of county residents with education level equivalent to a college degree or higher, as measured in the 1990, 2000, and 2010 Census data. |
| Geographical Distance | Distance in miles between the internal points of two counties from the NBER County Distance Database. |
| Income Difference | For a pair of counties, difference between the average county incomes per capita, as measured in the 1990, 2000, and 2010 Census data. |
| Industry Distance | L1-norm distance between the industry composition vectors for a pair of counties. An industry composition vector consists of industry employment shares (2-digit NAICS) within a county. Employment data are from the Bureau of Economic Analysis. |
| Population Difference | For a pair of counties, difference between the total county populations, as measured in the 1990, 2000, and 2010 Census data. |
| Religious Distance | L1-norm distance between the religion composition vectors for a pair of counties. A religion composition vector consists of county-level fractions of Protestants, Catholics, Orthodox Christians, Mormons, Jews, Others, as well as non-religious individuals from the Association of Religion Data Archives (ARDA) for 1990, 2000, and 2010. |

# B ADV Forms

Investment advisers file Form ADV to register with the SEC and/or the states and thereafter file an Annual Updating Amendment 90 days after the end of each fiscal year. Only investment advisers that *solely* advise venture capital funds or private equity funds do not have to register with the SEC or the states ("exempt reporting advisers"). They nonetheless complete some of the questions in Form ADV for purposes of reporting to the SEC and/or the states.

Form ADV consists of three parts. Part 1 contains information about the investment adviser's business, ownership, clients, employees, business practices, affiliations, and any disciplinary events of the adviser or its employees. Part 1 is organized in a check-the-box, fill-in-the-blank format. Investment adviser filings of Part 1 are available to the public on the SEC's Investment Adviser Public Disclosure (IAPD) website. Parts 2 and 3 require investment advisers to prepare a plain English summary about the adviser's business practices, fees, conflicts of interest, and legal and disciplinary history. While investment advisers are required to deliver these brochures to their clients, they are not available to the public in a research-friendly format.

We download the information in Part 1 of Form ADV for all investment advisers that filed with the SEC from the www.sec.gov and extract the following items:

- Item 1A. Legal name
- Item 5D. Number of clients by type and amount of total regulatory assets under management by client type. We extract information for the following types only: individual clients and high net worth individuals.
- Item 5F. Number of accounts and total assets under management
- From Schedule D1F, we extract the number of offices and their locations.

# C Additional Results

Table C1: **Institutional Characteristics**

| Variable | N | Mean | S.D. | P25 | Median | P75 |
|---|---|---|---|---|---|---|
| AUM, $ bln | 12,411 | 1.58 | 7.93 | 0.22 | 0.41 | 0.87 |
| Number of Accounts | 12,411 | 1,576 | 17,912 | 200 | 435 | 847 |
| Account Size, $ mln | 12,411 | 4.78 | 76.62 | 0.53 | 1.04 | 2.14 |
| Share of Individuals, Count-based (%) | 12,411 | 85.4 | 14.4 | 76 | 93 | 100 |
| Share of Individuals, AUM-based (%) | 6,486 | 80.5 | 22.7 | 76 | 81 | 100 |
| 13f AUM / ADV AUM | 12,411 | 72.9 | 22.8 | 58.9 | 70.2 | 84.0 |

Table C2: **Geographical Variation in the Sample Coverage**

This table reports the average number of counties per year between 1997 and 2019 in the full and balanced samples for each U.S. state with at least one county-year in the full sample.

| State | Average number of counties | | State | Average number of counties | |
|---|---|---|---|---|---|
| | Full Sample | Balanced Sample | | Full Sample | Balanced Sample |
| AK | 1.0 | - | MO | 2.5 | 1.0 |
| AL | 2.5 | 1.0 | MT | 1.4 | - |
| AZ | 1.4 | 1.0 | NE | 2.0 | 2.0 |
| CA | 13.6 | 8.8 | NH | 3.3 | 3.0 |
| CO | 3.3 | 2.0 | NJ | 8.3 | 3.8 |
| CT | 3.4 | 3.0 | NM | 1.1 | 1.0 |
| DC | 1.0 | 1.0 | NV | 1.3 | - |
| DE | 1.1 | - | NY | 10.1 | 5.9 |
| FL | 10.7 | 6.6 | OH | 6.3 | 4.9 |
| GA | 5.0 | 3.0 | OK | 1.6 | - |
| HI | 1.0 | - | OR | 2.2 | 1.0 |
| IA | 1.5 | - | PA | 10.0 | 5.9 |
| ID | 1.3 | 1.0 | RI | 1.2 | 1.0 |
| IL | 3.2 | 2.0 | SC | 1.9 | - |
| IN | 4.4 | 2.8 | SD | 1.3 | - |
| KS | 2.1 | 1.0 | TN | 3.5 | 2.0 |
| KY | 2.5 | 2.0 | TX | 6.3 | 3.0 |
| LA | 2.4 | - | UT | 1.7 | - |
| MA | 6.0 | 1.9 | VA | 10.5 | 5.8 |
| MD | 2.4 | 1.9 | VT | 1.7 | - |
| ME | 1.2 | 1.0 | WA | 4.0 | 2.0 |
| MI | 5.9 | 3.0 | WI | 5.8 | 5.0 |
| MN | 2.3 | 2.0 | WV | 1.4 | - |

Table C3: **The Effect of County Characteristics on Political Distance**

This table presents the effect of the differences in the county characteristics on *Political Distance*. Standard errors are double-clustered by county $A$ and county $B$. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Political Distance | | |
|---|---|---|---|
| | (1) | (2) | (3) |
| Population Difference | 0.006 | 0.004 | 0.022 |
| | (0.005) | (0.005) | (0.016) |
| Income Difference | 0.004* | 0.002 | 0.001 |
| | (0.002) | (0.002) | (0.001) |
| Population Difference | 0.006 | 0.004 | 0.022 |
| | (0.005) | (0.005) | (0.016) |
| Income Difference | 0.004* | 0.002 | 0.001 |
| | (0.002) | (0.002) | (0.001) |
| Education Difference | 0.113 | -0.207 | -0.176 |
| | (0.123) | (0.158) | (0.121) |
| Geographical Distance | | 0.029** | 0.000 |
| | | (0.014) | (0.000) |
| Industry Distance | | 0.485*** | -0.013 |
| | | (0.127) | (0.054) |
| Religious Distance | | 0.063** | 0.039** |
| | | (0.029) | (0.015) |
| Constant | 0.256*** | 0.060* | 0.277*** |
| | (0.021) | (0.034) | (0.031) |
| Observations | 96,008 | 96,008 | 96,008 |
| Adjusted $R^2$ | 0.0031 | 0.162 | 0.901 |
| Time FE | Yes | Yes | Yes |
| County Pair FE | No | No | Yes |

Table C4: **Effect of Political Distance on Portfolio Distance$^{\text{Alt}}$**

This table presents the effects of *Political Distance* on *Portfolio Distance$^{Alt}$*. Panel A reports the baseline effect (annual level). Panel B reports the change in the effect over time, in particular in the recent years of the (balanced) sample, both at the annual level and election cycle level. *Recent* is an indicator variable equal to one for years after 2012. Standard errors are double-clustered by county $A$ and county $B$. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

Panel A. Baseline Results

| | Portfolio Distance$^{\text{Alt}}$ | | | |
|---|---|---|---|---|
| | Full Sample | | Balanced Sample | |
| | (1) | (2) | (3) | (4) |
| Political Distance | 0.073*** | 0.083*** | 0.115*** | 0.158*** |
| | (0.020) | (0.027) | (0.038) | (0.043) |
| Constant | 1.685*** | 1.682*** | 1.637*** | 1.624*** |
| | (0.010) | (0.008) | (0.015) | (0.013) |
| Observations | 343,626 | 343,626 | 96,008 | 96,008 |
| Adjusted $R^2$ | 0.027 | 0.635 | 0.077 | 0.601 |
| Time FE | Yes | Yes | Yes | Yes |
| County Pair FE | No | Yes | No | Yes |

Panel B. Time Trend

| | Portfolio Distance$^{\text{Alt}}$ | | | |
|---|---|---|---|---|
| | Annual Level | | Presidential Cycle Level | |
| | (1) | (2) | (3) | (4) |
| Political Distance | 0.076** | 0.120*** | 0.078** | 0.127*** |
| | (0.037) | (0.043) | (0.037) | (0.044) |
| Political Distance × Recent | 0.110*** | 0.065*** | 0.113*** | 0.064*** |
| | (0.024) | (0.022) | (0.024) | (0.023) |
| Constant | 1.637*** | 1.629*** | 1.633*** | 1.624*** |
| | (0.015) | (0.013) | (0.015) | (0.013) |
| Observations | 96,008 | 96,008 | 25,848 | 25,848 |
| Adjusted R-squared | 0.081 | 0.603 | 0.095 | 0.624 |
| Time FE | Yes | Yes | Yes | Yes |
| County Pair FE | No | Yes | No | Yes |

Table C5: **The Effect of Sinclair Entry on County Characteristics**

This table presents the effects of Sinclair Entry on several county characteristics. Treated counties are those with Sinclair entries during our sample period. Post is an indicator variable that equals to one after the entry. In column (1), the dependent variable *EconConditions* is a county-year average response to the question from the U.S. Daily Gallup Survey: "How would you rate economic conditions in this country today?", where we code the responses as "poor" = 1, "only fair" = 2, "good" = 3, "excellent" = 4. In column (2), *EconOutlook* is a county-year average response to the question from the U.S. Daily Gallup Survey: "Right now, do you think that economic conditions in the country as a whole are getting better or getting worse?, where we code the responses as "getting worse" = 1, "are the same" = 2, "getting better" = 3. In column (3), *Religiosity* is a fraction of respondents who answer "Yes" to the question from the U.S. Daily Gallup Survey: "Is religion important in your daily life?" where possible answers are "Yes", "No", "Don't Know". In column (4), *Median Income* is county-year median family income from the U.S. Census Bureau. Standard errors are double-clustered by county and by year. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively.

| | EconConditions | EconOutlook | Religiosity | Median Income |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Treated × Post | 0.001 | 0.037 | -0.010 | -1.060 |
| | (0.012) | (0.044) | (0.015) | (0.796) |
| Constant | 2.069*** | 2.022*** | 0.527*** | 63.513*** |
| | (0.000) | (0.001) | (0.000) | (0.037) |
| Observations | 1,601 | 1,601 | 1,601 | 1,585 |
| Adjusted $R^2$ | 0.826 | 0.423 | 0.791 | 0.987 |
| Event ID × County FE | Yes | Yes | Yes | Yes |
| Event ID × Calendar time FE | Yes | Yes | Yes | Yes |

Table C6: **Attitudes towards Environmental Protection and Portfolio Allocation**

This table reports the relation between attitudes towards environmental protection proxied by *Democratic Share* and *Portfolio Fraction*$_{Env.Concerns}$, the average portfolio fraction invested in firms engaged in environmentally harmful businesses within a county. In column (4) and (5) we report the results for two subsets of counties, those with *Democratic Share* above 50% and those with *Republican Share* above 50%. Standard errors are clustered by county. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Fraction$_{\text{Env.Concerns}}$ | | | | |
|---|---|---|---|---|---|
| | | | | Dem.Sh. $> 0.5$ | Rep.Sh. $> 0.5$ |
| | (1) | (2) | (3) | (4) | (5) |
| Democratic Share | -0.2858* | -0.2063 | -0.2565 | | |
| | (0.159) | (0.169) | (0.183) | | |
| Democratic Share $\times$ Recent | | -0.0871 | -0.0062 | | |
| | | (0.070) | (0.069) | | |
| Republican President | | | | -0.0399*** | -0.0229 |
| | | | | (0.007) | (0.018) |
| Democratic Share $\times$ Republican President | | | 0.0866* | | |
| | | | (0.052) | | |
| Democratic Share $\times$ Republican President $\times$ Recent | | | -0.1581** | | |
| | | | (0.063) | | |
| Constant | 0.5319*** | 0.5037*** | 0.5061*** | 0.4217*** | 0.4451*** |
| | (0.087) | (0.089) | (0.092) | (0.003) | (0.006) |
| Observations | 2,109 | 2,109 | 2,109 | 439 | 154 |
| Adjusted $R^2$ | 0.630 | 0.632 | 0.633 | 0.708 | 0.873 |
| Time FE | Yes | Yes | Yes | No | No |
| County FE | Yes | Yes | Yes | Yes | Yes |

Table C7: **Attitudes towards Labor Protection and Portfolio Allocation**

This table reports the relation between attitudes towards labor protection proxied by *Democratic Share* and *Portfolio Fraction*$_{Labor\ Concerns}$, the average portfolio fraction invested in firms engaged in environmentally harmful businesses within a county. In column (4) and (5) we report the results for two subsets of counties, those with *Democratic Share* above 50% and those with *Republican Share* above 50%. Standard errors are clustered by county. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Fraction$_{\text{Labor Concerns}}$ | | | | |
|---|---|---|---|---|---|
| | | | | Dem.Sh. $> 0.5$ | Rep.Sh. $> 0.5$ |
| | (1) | (2) | (3) | (4) | (5) |
| Democratic Share | -0.2633* | -0.2113 | -0.2404 | | |
| | (0.154) | (0.163) | (0.180) | | |
| Democratic Share $\times$ | | -0.0568 | -0.0001 | | |
| Recent | | (0.060) | (0.063) | | |
| Republican President | | | | -0.0158** | -0.0007 |
| | | | | (0.006) | (0.029) |
| Democratic Share $\times$ | | | 0.0550 | | |
| Republican President | | | (0.033) | | |
| Democratic Share $\times$ | | | -0.1126* | | |
| Republican President | | | (0.064) | | |
| $\times$ Recent | | | | | |
| Constant | 0.4818*** | 0.4634*** | 0.4633*** | 0.5355*** | 0.5543*** |
| | (0.084) | (0.086) | (0.090) | (0.003) | (0.010) |
| Observations | 2,109 | 2,109 | 2,109 | 439 | 154 |
| Adjusted $R^2$ | 0.893 | 0.893 | 0.894 | 0.764 | 0.694 |
| Time FE | Yes | Yes | Yes | No | No |
| County FE | Yes | Yes | Yes | Yes | Yes |

Table C8: **Attitudes towards Gun Control and Portfolio Allocation**

This table reports the relation between attitudes towards gun control proxied by *Democratic Share* and *Portfolio Fraction*$_{Firearms}$, the average portfolio fraction invested in firms involved in small firearms production and distribution within a county. In column (4) and (5) we report the results for two subsets of counties, those with *Democratic Share* above 50% and those with *Republican Share* above 50%. Standard errors are clustered by county. $***$, $**$, and $*$ denote significance at 1%, 5%, and 10% level, respectively. All variables are defined in Appendix A.

| | Portfolio Fraction$_{\text{Firearms}}$ | | | | |
|---|---|---|---|---|---|
| | | | | Dem.Sh. $> 0.5$ | Rep.Sh. $> 0.5$ |
| | (1) | (2) | (3) | (4) | (5) |
| Democratic Share | 0.0027 | 0.0169* | 0.0103 | | |
| | (0.010) | (0.010) | (0.012) | | |
| Democratic Share $\times$ Recent | | -0.0155** | -0.0164** | | |
| | | (0.006) | (0.007) | | |
| Republican President | | | | -0.0004 | -0.0044 |
| | | | | (0.001) | (0.004) |
| Democratic Share $\times$ Republican President | | | 0.0058 | | |
| | | | (0.005) | | |
| Democratic Share $\times$ Republican President $\times$ Recent | | | 0.0038 | | |
| | | | (0.007) | | |
| Constant | 0.0020 | -0.0030 | -0.0010 | 0.0073*** | 0.0113*** |
| | (0.005) | (0.005) | (0.006) | (0.000) | (0.001) |
| Observations | 2,109 | 2,109 | 2,109 | 439 | 154 |
| Adjusted $R^2$ | 0.295 | 0.308 | 0.311 | 0.815 | 0.534 |
| Time FE | Yes | Yes | Yes | No | No |
| County FE | Yes | Yes | Yes | Yes | Yes |