

10月6日(月) 16:00~

Speaker : George Jiang (Washington State University)

Title: Uncertainty, Dichotomous Investor Risk Aversion, and Low-Risk Anomaly

Abstract

We propose a simple model with dichotomous investor risk aversion. The model predicts that in low uncertainty periods, low risk-averse investors are net buyers and marginal investors of high-risk stocks, whereas in high uncertainty periods, high risk-averse investors are net sellers and marginal investors of high-risk stocks. Relative to the setting with homogeneous investor risk aversion, the shift from low risk-averse marginal investors in low uncertainty periods to high risk-averse marginal investors in high uncertainty periods exacerbates the swing of high-risk stock returns beyond the effect of market uncertainty. Leveraging daily uncertainty and risk aversion indexes, we find consistent patterns in the performance of low-risk strategies. During periods of elevated uncertainty, high risk-averse investors de-risk their portfolios by selling high-beta and high-IVOL stocks, driving the underperformance of high-risk stocks.