

Individual investors repurchasing behavior: preference for stocks currently and previously owned

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ABSTRACT

The main purpose of this thesis is to study how individual investors behave concerning the repurchasing of stocks previously owned as well as the additional purchasing of stocks currently owned. We find, for a sample of 5,128 investors, that repurchases of stocks previously owned represent 29% of all purchases, while additional purchases of stocks currently owned represent 37%.

In an exploratory study, we find that the purchase of more units of the stocks currently owned appears to be an established pattern in investors' minds while the repurchase of previous holdings appears to be much hazier. Overall, investors report situations of additional purchasing of their current losers, while preferences to repurchase related with past returns and historical price patterns are not that well established.

Based on a unique database of 5,128 individual investors trading in the period from 1st August 2003 to 31st July 2007, we find that investors prefer to repurchase prior winners and that decreased in price after being sold, in line with Strahilevitz, Odean and Barber (2011). We also find that investors prefer to additionally purchase their current losers. The larger the prior gain, or the decrease in price after the sell, the more likely the investor is to purchase the same stock again. In addition, the larger is the current loss the more likely the investor is to purchase more units of that stock.

Moreover, we find statistically significant differences in these patterns related to firm-specific and investor-specific characteristics: the purchase of current and prior holdings is more likely for Portuguese visible stocks with negative market adjusted performance, and particularly for less active, under-diversified, and poor performance investors.

Overall, we find that reference prices, prior stock returns, stock visibility, and investor performance and sophistication are determinants of the repurchasing behavior.

Keywords: Investor Behavior; Individual Investors; purchasing behavior; mental accounting; investor's sophistication.